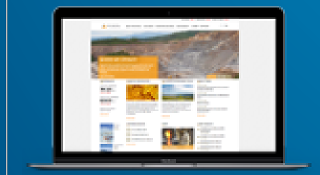
POLYMETAL
INTERNATIONAL PLC

20 YEARS OF SUSTAINABLE DEVELOPMENT

Polymetal International plc
Annual Report 2017

Polymetal is a leading precious metals mining group operating in Russia, Kazakhstan and Armenia. Listed on the London and Moscow stock exchanges, we currently have a portfolio of eight producing gold and silver mines and an impressive pipeline of future growth projects.

FIND OUT MORE



www.polymetalinternational.com

www.polymetalinternational.com/sustainable-development

20 YEARS OF SUSTAINABLE DEVELOPMENT

"In March 2018, we celebrate 20 years since the foundation of Polymetal. During that time, we have consistently delivered a strong operating performance and made good on our promises to our shareholders, employees, communities and other stakeholders."

20 POLYMETAL GOING STRONG

Dear fellow stakeholders

In 2018, Polymetal celebrates its 20th anniversary; perhaps still youthful by global metrics but, nevertheless, a respectable milestone for a business built from the ground up in an emerging market. During that time, the Company has delivered a production compound annual growth rate (CAGR) of 24%, developed 16 mines from scratch, added 6.7 Moz of gold equivalent and 9.5 Moz of palladium equivalent in newly discovered resources, paid out more than US$1 billion in dividends and attained industry leadership in processing refractory gold ore. We have expanded our operations within three mining jurisdictions in the former Soviet Union (Russia, Kazakhstan and Armenia) and have maintained a premium listing on the London Stock Exchange since 2011.

Playing to our strengths

Over the last 20 years, we have built on our core competencies: using a hub-based system (Dukat, Omolon and Okhotsk); mastering POX technology and trading refractory gold concentrates (Kyzyl, Albazino, Mayskoye); operating successfully in difficult climatic conditions at locations with little or no existing infrastructure (five operations in the Russian Far East). Consistently focusing on high-grade assets has also ensured that we have delivered superior returns on capital.

Financial prudence pays dividends

Adherence to strong capital discipline has been the foundation of our strategy – in careful project selection with a preference for high grade and low-capital-intensity, in value-accretive mergers & acquisitions (M&As), as well as in our dividend policy. From free cash flow for 2012-2017 totalling US$1.3 billion, Polymetal paid out US$1.0 billion in dividends, providing tangible returns to shareholders with a sector-leading three-year Total Shareholder Return (TSR) of 61%.

Leading by example

At the same time, Polymetal recognises its duty of care for its entire stakeholder base, as evidenced by its practice of good governance and sustainable development in the regions in which we operate. The Board and management are fully committed to a sustainability agenda with a renewed focus on health and safety. In other areas, Polymetal's position as an industry leader in sustainability is acknowledged both by local communities and by an increasing number of international rating agencies, most recently the World Wildlife Fund and Sustainalytics. We are also signatories to the International Cyanide Management Code.

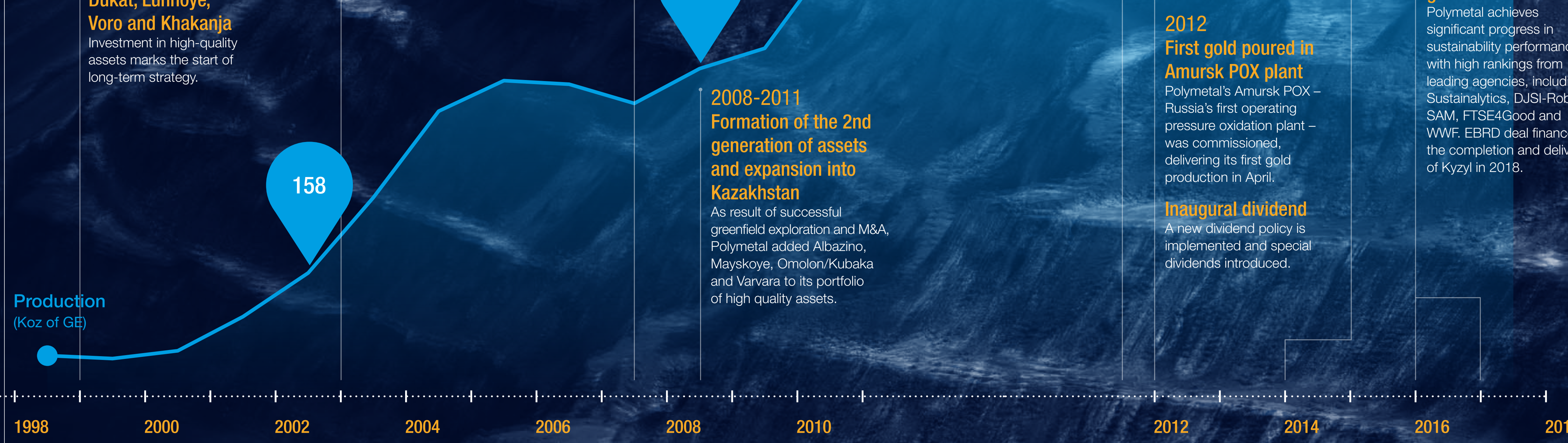
Polymetal is at the start of another dynamic stage in its history. Our investment in new projects – Kyzyl, and potentially into Nezhda, Prognoz and a second Amursk POX line – is expected to enable Polymetal to deliver superior shareholder returns and industry leadership over the long term. I look forward to making this journey, along with the Company's stakeholders.

Bobby Godsell

Bobby Godsell
Chairman

20 YEARS OF SUSTAINABLE DEVELOPMENT AND GROWTH

20 POLYMETAL GOING STRONG



Market Cap
US$5bn

Employees
11,919

Dividends paid
US$1bn

1999
Polymetal is founded
Polymetal was established by the ICT Group in St Petersburg with the objective of building a highly professional Russian mining company, using advanced technology throughout – from exploration to bullion production.

1999-2002
Formation of the 1st generation of assets – Dukat, Lunnoye, Voro and Khakanja
Investment in high-quality assets marks the start of long-term strategy.

2003
Vitaly Nesis is appointed as CEO
A new organisational structure is formed to increase efficiency.

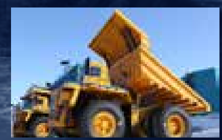
2007
Polymetal listing on the London and Russian Stock Exchanges
Polymetal goes public on the London and Russian Stock Exchanges, an affirmation of its adherence to international standards of corporate governance and the quality of its asset portfolio.

2008-2011
Formation of the 2nd generation of assets and expansion into Kazakhstan
As result of successful greenfield exploration and M&A, Polymetal added Albazino, Mayskoye, Omolon/Kubaka and Varvara to its portfolio of high quality assets.

2011
Joining the FTSE 100
With significant operational developments during the year, Polymetal also completes a premium listing on the London Stock Exchange and enters the FTSE 100 Index, raising US$763 million from the IPO.

2012
First gold poured in Amursk POX plant
Polymetal's Amursk POX – Russia's first operating pressure oxidation plant – was commissioned, delivering its first gold production in April.

Inaugural dividend
A new dividend policy is implemented and special dividends introduced.



2014
Acquiring world-class asset – Kyzyl
Polymetal announces its largest acquisition of Kyzyl (Kazakhstan), one of the world's largest gold deposits, increasing gold reserves by 50% and contributing over 300 Koz of GE production. per year.

2016
Expanding operations
For the first time, Polymetal expands its operations into Armenia with the acquisition of the Kapan operating mine and processing plant. Our exploration programme reveals a large PGM deposit at Viksha.

2017
Focus on sustainable development and growth
Polymetal achieves significant progress in sustainability performance with high rankings from leading agencies, including Sustainalytics, DJSI-Robeco SAM, FTSE4Good and WWF. EBRD deal finances the completion and delivery of Kyzyl in 2018.

POLYMETAL TODAY

2nd largest
gold producer in Russia

8 operations
across 3 countries

1 POX facility
first in the FSU

4 major
development projects

FTSE 250
constituent

LOOKING AHEAD

Operating excellence
Consistently delivering a robust operating and financial performance helps generate positive cash flow and significant returns for our shareholders.

Advancing medium-term growth
Kyzyl is due to deliver its first gold in Q3 2018 and will drive medium-term production growth through to 2020.

M&A and exploration
Greenfield and brownfield exploration have proved to be efficient growth sources for the Company, along with value-accretive acquisitions.

Adhering to high standards
Good corporate governance and sustainable development create shareholder value and show our commitment to the interests of all our stakeholders.

GROUP CEO STATEMENT

GE production

1.43 Moz

+ 13%

Adjusted EBITDA[1]

US$745 million

(2016: US$759 million)

Dividends proposed for the year

US$189 million

(2016: US$179 million)

[1] The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Alternative Performance Measures section on pages 168-169.

[2] On a 100% basis.

A successful and eventful year

2017 has been an exciting year for Polymetal, with significant progress made on the Kyzyl construction and the Amursk POX expansion. Both projects are on track and will launch within a few months. We further advanced our growth pipeline with the initial resource-and-reserve estimate on Nezhda joint venture reaffirming the economic attractiveness of the asset and justifying our development approach; we have also secured an option to consolidate our ownership. During the year, we invested in Prognoz, the largest undeveloped silver asset in Russia and progressed with pilot plant testing at Viksha, our first platinum group metals (PGM) project.

We have substantially increased our resources this year. Reserves at Nezhda[2] were confirmed as 2.0 Moz of GE at 4.0 g/t with an exploration upside of 8.9 Moz of additional resources at 5.0 g/t. At Prognoz[2], where we have begun drilling, according to historical estimates there is a high-grade resource of 292 Moz of silver at 586 g/t with excellent exploration potential. An updated reserve estimate at the Komar gold deposit reported an increase of 524 Koz of gold with the grade stable at 1.8 g/t. We are now planning to transport more than 2 million tonnes of ore from Komar to our Varvara processing site, doubling the anticipated production rate.

“We have made significant progress in 2017 on existing operations and new projects, and 2018 looks set to be a transformational year for Polymetal.”

Operationally, we met the production guidance comfortably, growing GE production 13% year-on-year to 1.43 Moz. Just one year after launch, Svetloye delivered superior results while Komar provided strong support to our Varvara operations. Other mature mines generally performed in line with expectations, with the exception of Mayskoye where open-pit production has been delayed until 2018 in order to rectify recovery issues. By the end of the year we also achieved a record 97.2% recovery at our flagship Amursk POX hub.

Full-year gold production of 1,075 Koz, a 21% increase year-on-year, allowed Polymetal to join the prestigious 1 Moz club, the second gold company listed on the London Stock Exchange to achieve this impressive milestone.

Robust financial performance

Despite peak capital spending at Kyzyl and the Amursk POX expansion, in addition to our investment in new development projects, Polymetal delivered meaningful free cash flow, totalling US$143 million in 2017. There were some cost pressures during the year due to the significant 15% appreciation of the Russian Rouble, driven by the rebound in oil prices, which pushed TCC up to US$658/GE oz in 2017 (2016: US$570/GE oz). However, this was partially offset by the best performance in gold prices since 2010, with 13% annual growth.

Exceptional investment prospects

Polymetal's focus on its particular strategic and competitive strengths – in selective mining, processing refractory ores and trading precious metal concentrates – has established a company with the enviable position of being both able to acquire or explore attractive investment opportunities, and also to deliver on them.

High-grade assets

Our choice of high-grade assets and strategic use of a hub-based system generates free cash flow through the cycle and maximises returns on investment, while at the same time reducing project development risks.

Investing in greenfield exploration

Reserve quality and low-capital intensity are fundamental to our continuing investment in greenfield exploration and how we appraise M&A opportunities.

Committed to capital discipline

Through our commitment to capital discipline, we are able to deliver a sector-leading TSR and maintain a strong balance sheet.

This enabled us to deliver a net profit for the year of US$354 million. In line with the new dividend policy, the pay-out ratio for regular dividends has been increased to 50%. In 2017, dividends of US$138 million (US$ 0.32 per share) were paid out and a final dividend of US$129 million (US$0.30 per share) is proposed.

Health and safety still a key focus

Although there has been some improvement in our health and safety performance, there is no room for complacency since, sadly, we have to report the death of two employees in 2017. We continue to view this as unacceptable and remain committed to our zero-fatalities target, as our enhanced critical risk management system gains traction.

At the same time, we have received wide-spread recognition for our sustainability initiatives, both here in our home market and internationally. Most recently we were awarded a top ranking for environmental responsibility among Russian metals and mining companies by the World Wildlife Fund; Sustainalytics positioned Polymetal as an outperformer in the metals and mining industry, ranking it first among its peers and fourth globally among the 44 mining companies included in the report; our performance on the Dow Jones Sustainability Index was assessed as above industry average and up 28% over the previous year. We were also awarded the highest score for Corporate Governance and Anti-Corruption in the FTSE4Good Index.

Anticipating the future

2018 looks set to become another transformational year for Polymetal. The launch of the Kyzyl project is scheduled for the third quarter and is much anticipated both within the Company and by all our stakeholders. This, in turn, should allow us to move closer to finalising decisions on two further investments by the end of 2018, namely the construction plans for Nezhda and the feasibility study for a second POX line at Amursk. We expect further production growth in 2018, with this predominantly driven by Kyzyl but also from Komar's ramp-up to 2.2 Mtpa and from our existing mines continuing to deliver stable performances.

Last, but by no means least, I wish to thank our employees for all their commitment and professionalism. It is their efforts that have helped to shape the Company over the last 20 years and this should be celebrated, along with the anniversary itself. I am optimistically looking forward to the next decade in our history and to us all playing our parts in this new chapter of Polymetal's story.

Vitaly Nesis
Group CEO

OPERATING EXPERTISE

DELIVERING ROBUST OPERATING AND FINANCIAL PERFORMANCE

We have built a solid track record of delivering on our promises. For the sixth consecutive year, we beat our production guidance through a consistently robust and resilient operating performance. This allowed us to generate positive free cash flow and significant cash returns to our shareholders.

GE PRODUCTION	ADJUSTED EBITDA*
1.43 Moz	US$745m
+13%	2016: US$759m

ORE PROCESSED	UNDERLYING NET EARNINGS*
13 Mt	US$376m
+14%	2016: US$382m

DIVIDEND PROPOSED FOR THE YEAR

US$189m

2016: US$179m

The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Financial review section.

See more on P26 and 58

PROGRESS UPDATE

Svetloye

In 2017, the Svetloye heap leach operation was ramped-up to full capacity, making a substantial contribution to the Group's strong performance. Just one year after launch, Svetloye delivered superior results with GE production of 106 Koz compared with 23 Koz in 2016 and was the lowest cost operation, with TCC of US$313/GE oz, on the back of exceptional operational delivery and positive grade reconciliations.

PRODUCTION

106 GE Koz

2016: 23 GE Koz

See more on P38

Albazino/Amursk

In 2017, Albazino/Amursk achieved record gold production of 269 Koz, up 10% year-on-year, while advancing the debottlenecking project. The production increase was primarily driven by higher hourly productivity and recovery levels, as well as significant improvement in head grades. At the Amursk POX plant, a record recovery of 97.2% was achieved in Q4 2017, due mostly to the automation of the material flow control system and expansion of the water treatment section.

AVERAGE POX RECOVERY

96.4%

2016: 94.5%

See more on P35-36

Komar and Varvara

Almost 2 Mt of Komar ore was railed to the Varvara hub resulting in record GE production of 130 Koz, up 54% year-on-year. In 2018, additional Komar ore will displace the lower-grade material from the Varvara deposit, increasing production and reducing costs at the Varvara processing hub. To further streamline logistics and reduce haulage costs, a new railway spur has been commissioned at Komar.

PRODUCTION

130 GE Koz

+54%

See more on P40

Kapan

In 2017, full year gold production at Kapan reached a record 50 Koz of GE. The strong operational performance at Kapan was driven by increased processing volumes and improved head grades on the back of ongoing measures to debottleneck the underground mine and improve recovery levels. This will continue in 2018 along with active exploration within the region.

PRODUCTION

50 GE Koz

+94%

See more on P41

GROWTH PROJECTS

ADVANCING MEDIUM-TERM GROWTH THROUGH BUILDING AND RAMPING UP KYZYL

The Kyzyl project is a major medium-term growth driver for Polymetal and will be instrumental in achieving medium-term growth in production through to 2020. We are aiming to deliver the first gold at Kyzyl in Q3 2018 and ramp up the debottlenecking project at the Amursk POX in line with this.

GOLD RESERVES

7.3 Moz

HIGH-GRADE

7.7 g/t

with 6.9 g/t in the open-pit

EXCELLENT EXPLORATION UPSIDE

3.1 Moz

additional resources at 6.8 g/t

LIFE OF MINE

22 years

first 10 years open-pit

Kyzyl completion scorecard

Open pit	100%
Processing plant	85%
External infrastructure	100%
Internal infrastructure	95%
Tailings storage	95%
Concentrate offtake	100%

Amursk POX Expansion project completion scorecard

Hydrometallurgical plant	90%
Oxygen station 2	75%
Other processing objects	75%
Infrastructure	80%

See more on P42-43

PROGRESS UPDATE

Kyzyl

Kyzyl is one of the best development-stage gold projects in the world. With its large high-grade reserves, long mine life and low-capital intensity, it is set to create significant shareholder returns

Construction activities are now focused on the installation of smaller technological equipment and Kyzyl is on track to produce the first concentrate in Q3 2018. First ore has already been mined from the open-pit ahead of schedule in January 2018.

There is a strong demand for concentrate from multiple offtakers with the first contract signed in Q1 2018.

See more on P42-43

Amursk POX expansion

Expansion of Amursk POX plant targets an increase in POX capacity, enabling Polymetal to retain approximately 50% of Kyzyl concentrate for in-house treatment, as opposed to a third-party offtake. This is expected to improve effective gold recovery from concentrate, as well as bring down processing and transportation costs.

The debottlenecking project at the Amursk POX is progressing on schedule. Polymetal plans to ramp up the debottlenecked POX plant in the second half of 2018, in time to take first feed from the Kyzyl concentrator.

See more on P35

POX-2 project

Polymetal is continuing to undertake extensive metallurgical testwork and evaluate its ability to use high-temperature (230-240C) POX technology to process high-carbon Kyzyl concentrate and third-party feedstocks. The project will enable Polymetal to materially improve the economics of refractory gold projects by increasing gold recovery from concentrates and bringing down processing and transportation costs, and will also strengthen Polymetal's commercial position on the concentrate market vis-à-vis offtakers. A decision on construction of the second POX is expected in late 2018, in conjunction with the ramp-up of Kyzyl and an investment decision on Nezhda project.

See more on P35

GROWTH PROJECTS

BUILDING LONG-TERM GROWTH THROUGH M&A AND GREENFIELD EXPLORATION

Greenfield and brownfield exploration has proved to be one of the most efficient growth sources for Polymetal historically. During 2017, our reserves and resource base increased by 5% to 20.9 Moz and 10% to 18.1 Moz of GE, respectively. At the same time, we remain open to value-accretive acquisition opportunities.

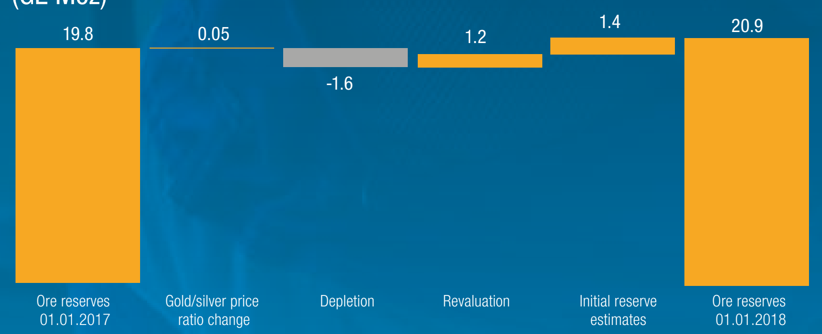
INITIAL RESERVE ESTIMATE

1.4 GE Moz

INITIAL RESOURCE ESTIMATE

2.0 GE Moz

Ore reserves reconciliation (GE Moz)



See more on P44-47

PROGRESS UPDATE

Nezhda

In 2017, Polymetal secured an option to consolidate 100% in Nezhda[1], its joint venture in Yakutia (Russia) for the development of a high-grade refractory gold deposit. The initial Ore Reserve estimate (JORC) for Nezhda reaffirmed its economic viability with open-pit ore reserves[2] estimated at 15.5 Mt of ore with an average GE grade of 4.0 g/t for 2.0 Moz of GE contained. Additional mineral resources are estimated at 55.9 Mt of ore with an average GE grade of 5.0 g/t for 8.9 Moz of GE contained. Production is currently projected to startduring in 2022.

[1] Current share of Polymetal in Nezhda JV is 17.66%.
[2] On a 100% basis.

ORE RESERVES (on a 100% basis)

2.0 GE Moz

at 4.0 g/t (JORC)

See more on P44-45

Prognoz

Prognoz is the largest undeveloped primary silver deposit in Russia. Polymetal acquired 5% in January 2017 with new terms negotiated to consolidate a 45% stake in the property. The transaction is expected to close in the first half of 2018. Mineral resources[2] are estimated at 292 Moz at 586 g/t silver, 3% lead. Additional mineralised potential: 7.9-18.1 Mt of ore at 469 g/t silver for 119-273 Moz of silver contained. In 2017, Polymetal completed 37 km of diamond drilling to confirm historical results and established basic remote-site infrastructure on the property. Exploration results fully confirmed the extent, width, and grade of two centrally located veins.

MINERAL RESOURCES (on a 100% basis)

292 SE Moz

at 586 g/t

See more on P46

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS

SUSTAINABLE DEVELOPMENT

ADHERING TO HIGH STANDARDS OF CORPORATE GOVERNANCE AND SUSTAINABLE DEVELOPMENT

We strongly believe that high standards in both corporate governance and sustainable development are essential to creating shareholder value. As well as reinforcing strategic leadership and robust internal controls, they demonstrate our commitment to safer working conditions, responsible environmental management and the interests of all our stakeholders.

STAFF TURNOVER RATE	LTIFR
5.4%	0.15
2016: 5.5%	-21%

1st	0
in environmental responsibility rating for metals and mining companies in Russia by WWF and UNDP	major environmental incidents

FTSE4Good

See more on P48-57 and 77-111

PROGRESS UPDATE

Governance

Our Board combines the effective representation of investors with a majority representation of fully independent, non-executive Board members. Diverse, both in terms of professional experience and nationality, the Board both aspires to and believes that it achieves global best practice in terms of corporate governance. During 2017, Polymetal instigated the first stages of a comprehensive Board succession programme, which will ensure that we continue to have a majority of independent Directors on the Board while, at the same time, providing a greater depth in finance, mining and institutional investment skills.

See more on P75-115

Sustainability

In 2017, Polymetal made significant progress in sustainability performance with an all-round improvement that has been highly rated by leading sustainability agencies. We believe that this recognition reflects Polymetal's serious commitment to sustainability and continuous improvement, which translates into safer working conditions for people, responsible environmental management, social support for the local communities and growing economic value for our stakeholders. Our focus remains on health and safety, where we are determined to achieve our principal goal of zero fatalities at our operations.

See more on P48-55

Sustainability highlights

- Sustainalytics positioned Polymetal as an outperformer in the metals and mining industry, ranking it first among its peers and fourth among the 44 mining companies included in the report.
- FTSE4Good Index awarded Polymetal the highest score for corporate governance and anti-corruption.
- WWF rank the Company first in the environmental management category and in environmental responsibility ratings for metals and mining companies in Russia.
- Our performance on the Dow Jones Sustainability Index was above industry average and up 28% over the previous year.
- We developed our climate strategy, implemented an energy management system and started to use renewable energy.

See more on P48-55

AT A GLANCE

Polymetal International plc is a leading precious metals mining group operating in Russia, Kazakhstan and Armenia listed on the London Stock Exchange and Moscow Stock Exchange. The Company is a member of the FTSE 250 and FTSE Gold Mines. Polymetal has a portfolio of eight producing gold and silver mines and an impressive pipeline of future growth projects.

OUR STRATEGY

1. Pay significant and sustainable dividends through the cycle

2. Continue to grow our business without diluting its quality

- > Deliver robust operating and financial performance at existing mines through cost control and reserve replacement
- > Deliver medium-term growth through building and ramping up Kyzyl
- > Build and advance long-term growth pipeline through opportunistic M&A and greenfield exploration
- > Maintain high standards of corporate governance and sustainable development

See more on P22-23

WHAT MAKES US DIFFERENT

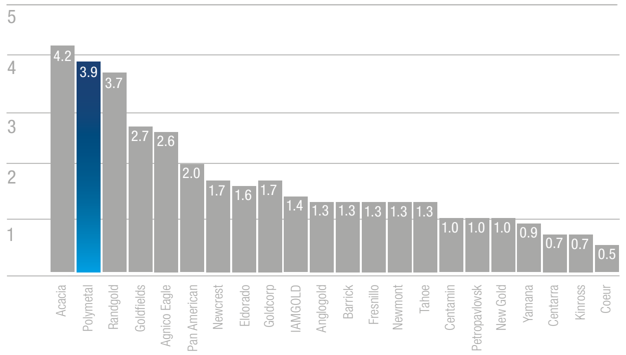
- > Focus on high-grade assets
- > Strong capital discipline
- > Investing in exploration
- > Hub-based system
- > Exemplary governance
- > Operational excellence

See more on P18-19

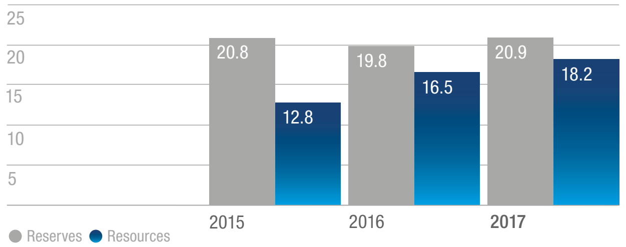
RESERVES AND RESOURCES

Profile among peers

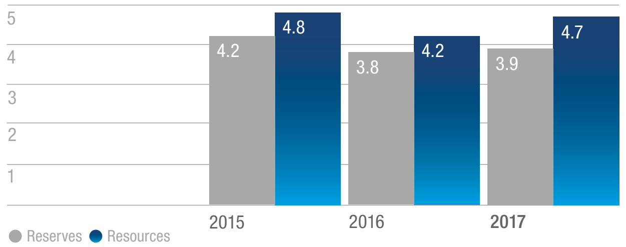
Average reserve grade (proved and probable reserves) (g/t of GE)



Reserves and resources (Moz)

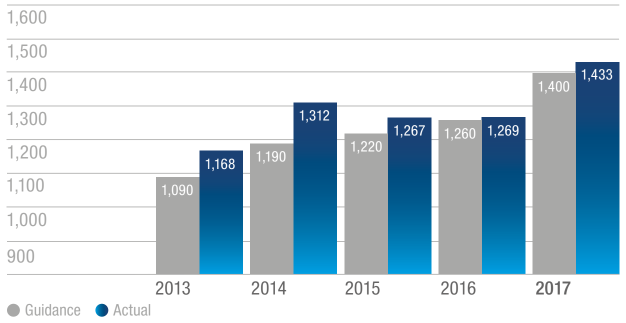


Average reserve/resource grades (g/t)



PROVEN TRACK RECORD

Annual production based on 80:1 Ag/Au ratio (Koz of GE)



DEVELOPMENT AND GROWTH PROJECTS

Kyzyl

Launch in 2018

Ore reserves	Average production
7.3 Moz GE	300 Koz
7.7 g/t average grade	for open-pit

Nezhda[1]

A very large high grade gold project

Ore reserves	Mineral resources
2.0 Moz GE	8.9 Moz GE
4.0 g/t average grade	5.0 g/t average grade

Prognoz[2]

Largest undeveloped primary silver deposit in Russia

Mineral resources

292 Moz of silver

at 586 g/t, 3% lead

[1] JV with current share of 17.66%, all data is on 100% basis
[2] JV with current share of 5%, all data is on 100% basis

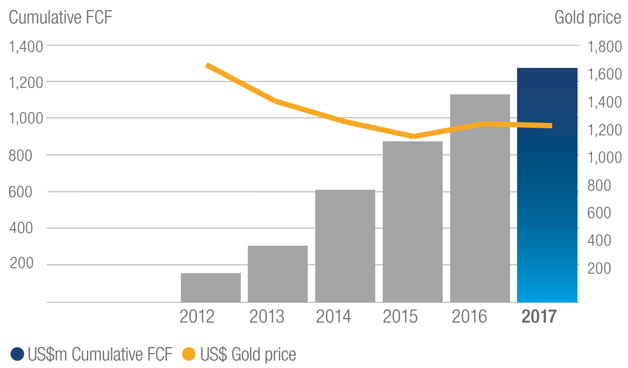
KEY FINANCIAL FIGURES

Revenue	Total cash costs*	All-in sustaining cash costs*
US$1,815m	US$658/GE oz	US$893/GE oz
(2016: US$1,583m)	(2016: US$570/GE oz)	(2016: US$776/GE oz)
Adjusted EBITDA*	**Free cash flow***	**Net earnings**
US$745m	US$143m	US$354m
(2016: US$759m)	(2016: US$257m)	(2016: US$395m)

* The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Alternative Performance Measures section on pages 168-169.

STRONG CAPITAL DISCIPLINE

Cumulative free cash flow since IPO



HIGH STANDARDS OF GOVERNANCE

- > Polymetal adheres to the highest standards of corporate governance since its original listing on London's Main Market in 2007
- > We instigated the first stages of a comprehensive Board succession programme, which will ensure that Polymetal continues to have a majority of independent Directors on the Board while at the same time providing a greater depth in finance, mining and institutional investment skills

SUSTAINABILITY

- > Signatory to the International Cyanide Management Code
- > Leader for environmental management in WWF/UN rating
- > Completion of ESIA at Kyzyl (EBRD Environmental and Social Policy implemented)
- > Carbon Management and Human Rights Policies developed
- > Biodiversity conservation incorporated into corporate environmental management
- > We perform well on most ESG metrics and are part of FTSE4Good and STOXX ESG Leaders indices

LTIFR reduction

21%

Community investment

US$11.7m

(2016: US$5.1m)

WHERE WE OPERATE

- Operating mine
- Growth projects
- Further growth opportunities
- Head office
- City/town
- Seaport

GROWTH PROJECTS

10 KYZYL

LARGE HIGH-GRADE GOLD PROJECT IN NORTH-EASTERN KAZAKHSTAN

Reserves: 7.3 Moz at 7.7 g/t Au (JORC)

Resources: 3.1 Moz at 6.8 g/t Au (JORC)

Mining: Open-pit followed by underground

Processing: Flotation + POX/concentrate offtake

First production: Q3 2018

Life of mine: 22 years

11 NEZHDA JV[1]

RUSSIA'S 4TH LARGEST GOLD DEPOSIT

Reserves: 2.0 Moz of GE at 4.0 g/t (JORC)

Resources: 8.9 Moz of GE at 5.0 g/t (JORC)

Mining: Open-pit (11 years), followed by underground

OPPORTUNITIES

12 PROGNOZ JV[2]

LARGEST UNDEVELOPED PRIMARY SILVER DEPOSIT IN RUSSIA

Reserves: 292 Moz of silver at 586 g/t

Mining: Open-pit (5-8 years), followed by underground

Expected throughput: ~1 Mtpa

13 VIKSHA

Resources: 213 Mt at 0.98 g/t of combined precious metals

Processing: conventional flotation processing to produce bulk copper-PGM sulphide concentrate + off-take

[1] JV with current share of 17.66%, all data is on 100% basis.
[2] JV with current share of 5%, all data is on 100% basis.

OPERATING ASSETS

1 DUKAT HUB

Operating mines: Dukat, Lunnoye, Goltsovoye, Arylakh

Key exploration projects: Perevalnoye, Primorskoye

Processing: 1.6 Mtpa Dukat concentrator and 400 Ktpa Lunnoye Merrill-Crowe plant

2 OMOLON HUB

Operating mines: Birkachan, Sopka, Tsokol, Oroch, Olcha

Development projects: Burgali

Key exploration projects: Yolochka, Irbychan, Nevenrekan

Processing: 850 Ktpa Kubaka CIP and Merrill-Crowe plant, 1 Mtpa Heap Leach plant

3 AMURSK HUB

Processing: 500 tpd Amursk POX plant

4 ALBAZINO

Operating mine: Albazino

Processing: 1.6 Mtpa concentrator

5 MAYSKOYE

Operating mine: Mayskoye

Processing: 850 Ktpa concentrator

6 OKHOTSK HUB

Operating mines: Avlayakan, Ozerny, Svetloye

Key exploration projects: Kirankan, Khotorchan, Kundumi, Levoberezhny

Processing: 600 Ktpa Merrill-Crowe plant and Svetloye 1 Mtpa Heap Leach plant

7 VORO

Operating mine: Voro

Key exploration projects: North Kaluga, Saum, Tamunier, Pesherny

Processing: 950 Ktpa CIP and 900 Ktpa HL

8 VARVARA

Operating mines: Varvara, Komar

Key exploration project: Tarutin

Processing: 4.2 Mtpa Float + Leach

9 KAPAN

Operating mine: Kapan

Development project: Lichkvaz

Processing: Fully mechanised underground mine with current capacity of approximately 400 Ktpa. Conventional 750 Ktpa flotation concentrator and various infrastructure facilities.

BUSINESS MODEL

Our investment in the skills and expertise that support key competencies, backed by strong financial discipline, ensures a robust performance throughout the cycle.

OUR CAPITAL

Financial
Strong balance sheet and a large portfolio of available undrawn credit facilities; access to international equity markets and use of shares as acquisition currency.

Business
Key competencies in refractory gold concentrate trading; sustainable relationships with contractors and suppliers.

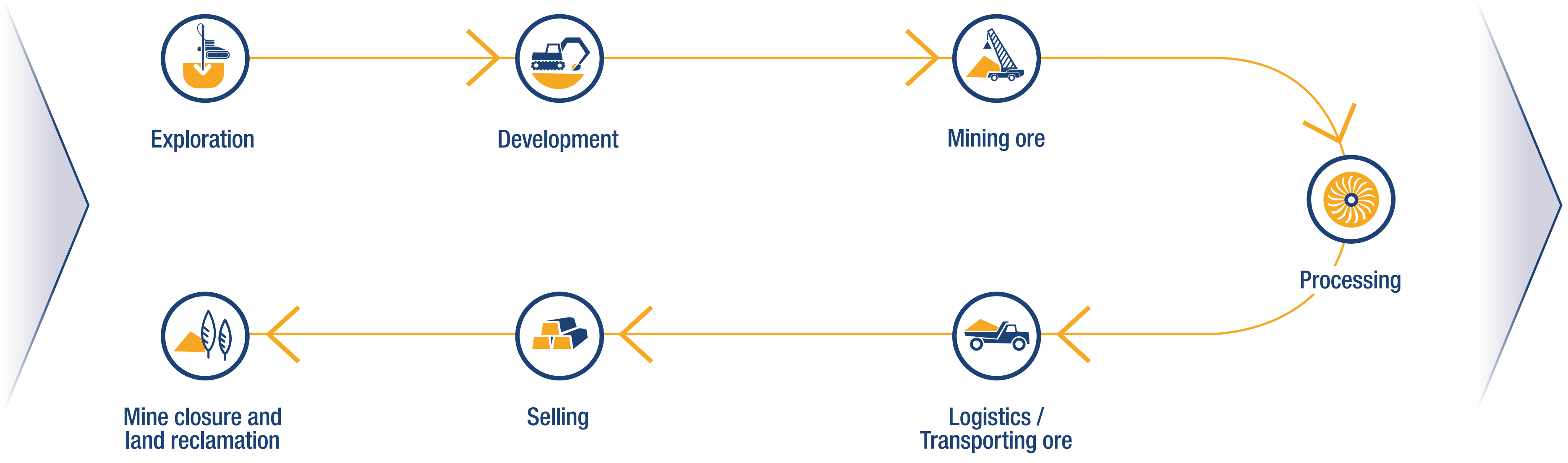
Intellectual
Investing in skills and expertise, use of leading technologies in refractory gold processing (POX), selective mining, development of know-how.

Natural
Portfiolio of high-grade reserves; water, energy and fuel to run our operations.

Human
11,919 employees; attracting and retaining high-potential employees across Russia, Kazakhstan and Armenia; nurturing young leaders to manage further growth.

Social and relationship
Constructive relationships with local governments and communities; transparent and productive dialogue with stakeholders.

OUR BUSINESS



WHAT MAKES US DIFFERENT

FOCUS ON HIGH-GRADE ASSETS
Return on investment in the precious metals industry is reliant on grades and mining conditions. We achieve better returns and lower risks from our project portfolio by setting appropriate thresholds on head grades and largely focusing on open-pit mines.

STRONG CAPITAL DISCIPLINE
We engender a strong focus on capital discipline throughout the business; maximising risk-adjusted return on capital is our priority in all investment decisions. We do not retain excess cash and return free cash flow to shareholders through substantial dividend payments while retaining a safe leverage level.

INVESTING IN EXPLORATION
Investment in both greenfield and near-mine exploration provides us with a cost-effective increase in our reserve base and, along with successful acquisitions, is the key source of our long-term growth.

HUB-BASED SYSTEM
Our centralised hub-based system handles ores from different sources, achieving economies of scale by minimising processing and logistics costs, as well as capital spending per ounce. This facilitates production at otherwise uneconomical medium- and small-sized near-plant deposits.

EXEMPLARY GOVERNANCE
We believe that good corporate governance is key to the ongoing success of the business and value creation for our shareholders. We are compliant with all regulatory requirements and are recognised as sustainability leaders in the countries in which we operate, adopting best practice in nurturing relationships with all our stakeholders in government, industry and the communities.

OPERATIONAL EXCELLENCE
We pride ourselves on our operational excellence and delivering on our promises to shareholders. Despite difficult trading conditions, we beat our production guidance for the sixth consecutive year.

OUTCOME

Shareholders
We deliver a sustainable dividend stream

US$189m proposed for 2017

Other capital providers
We have an excellent credit history and strong partnerships within financial markets.

3.96% average cost of debt in 2017

Employees
We provide competitive remuneration, which is above the regional average, and comfortable working conditions, as well as stimulating career development opportunities

11,919 employees

Suppliers
We provide fair terms and have established long-term and mutually beneficial partnerships, while ensuring suppliers' integrity and ESG compliance

Over 4,500 potential contractors audited for ethical principles and anti-corruption policies

Local communities
We invest in our local communities, providing employment opportunities and improving infrastructure, and engage with them to achieve their support for the projects that we undertake

US$11.7m investments in social projects

State authorities
We contribute to the national wealth and are a significant tax payer in the regions of operation, supporting local government's social projects

US$143m taxes paid

Market trends and opportunities
Our investments in attractively priced high-quality assets enable us to generate a consistently sustainable free cash flow and deliver returns for our shareholders.

See more on P20-21

Risk management
Our strategies, whilst underpinning the business model, also allow us the flexibility to react to any given market opportunities or challenges.

See more on P68-74

Strategy
We have in place a robust risk management system, which is designed to mitigate potential risks to the sustainability and success of the business.

See more on P22-23

Governance
We are committed to maintaining world-class ethical standards and behaviour across every aspect of our business.

See more on P75-115

MARKET TRENDS

While 2016 was quite volatile, 2017 saw the global economy pick up with many assets, including major indices, rise in value and close the year on a bullish note, all against the backdrop of heightened geopolitical instability and tightening monetary policy across the board. The markets witnessed three interest rate hikes by the US Federal Reserve during the year and a benchmark increase by the Bank of England, for the first time in a decade, while the EU Central Bank declared victory over deflation, signaling a potential end to their loose monetary policy.

Gold

The precious metals sector was no exception, displaying positive price momentum in the course of the year.
For the second year in a row, gold became one of the best performing assets following consecutive price declines from 2013-2015. The gold price grew by 13.5% – its biggest annual gain since 2010 – and outperformed all major asset classes other than stocks. This performance was primarily supported by a weakened US Dollar, as well as heightened investor uncertainty on the back of geopolitical instability and a potential pullback on increased P/E ratios and expensive stock valuations, which fuelled investor flows into gold in order to manage risk exposure. Although gold was traded within a narrow range of US$1,200–1,300 for most of the year, it closed at US$1,297/oz compared with US$1,146/oz in 2016, averaging US$1,257 for the year and recording a year-high of US$1,351 in the third quarter.

However, gold demand remained under pressure in 2017, down 7% to 4,072 tonnes over 2016. The decline was driven by substantially lower retail investment demand and lagging ETFs, which only added one-third of 2016's inflows. On the other hand, buying from the official sector recorded a substantial gain of 36% year-on-year as Russian and Turkish central banks continued to bolster gold reserves. Technology demand recorded its first year of growth as the use of gold in smartphones and vehicles continued to increase, ending a six-year downtrend. Physical demand remained relatively flat over the previous year, while jewellery demand posted its first annual increase since 2013, however remaining weak in a historical context.

Gold and silver mine output, on the other hand, continued to slow down due to substantial production losses seen in Indonesia and China on the back of environmental concerns and a crackdown on illegal mining. This has resulted in the plateauing of global output, which many believe to be the start of a multi-year downtrend, at least at current price levels.

Silver

In 2017, silver underperformed gold ending the year on par with its 2016 average of US$17.0/oz. This was primarily driven by lacklustre interest from investors on the back of stronger performances from equities and a sharp decline in investment demand. ETF holdings also weighed on silver price dynamics, posting a decrease over 2016. Meanwhile, in 2017, industrial demand for silver grew by roughly 3% on the back of increased demand from the solar and automotive sectors. Mine output recorded a modest decrease year-on-year due to production declines in Chile and Australia, as well as in Guatemala where resource nationalism disrupted production at one of the largest primary silver mines.

Platinum group metals

2017 was an interesting year for PGMs, primarily led by palladium's stellar performance. Palladium outperformed every other precious metal in 2017, gaining more than 50% and reaching a price of more than US$1,000/oz something not seen since the start of 2000. Platinum, on the other hand, rose only 4% as the market share of diesel-powered vehicles – where the metal is primarily used – declined in favour of petrol cars. As a result, platinum prices remained under pressure, while palladium prices benefited from the boost in global petrol car demand. Moreover, palladium prices were further bolstered due to a substantial supply deficit on the back of mining issues in South Africa.

Mine production around the world

Year-on-year mine production recorded a modest decline in 2017, marking what many believe is the beginning of a sustained downtrend in gold mine output, which is set to continue during 2018. At the global level, environmental concerns and a crackdown on illegal mining were the driving forces behind the drop in output in 2017. Of equal significance is the broader issue of a reduction in project pipelines, as a consequence of lower gold prices and wider project development challenges across the sector, and the fact that new mine starts in recent years have mainly served to fill the gaps left by production losses elsewhere. The league table of the biggest gold mining countries in 2017 remains unchanged: China, Russia and Australia.

Our operating environment

In Russia, the mining industry is the second-largest sector after oil and gas. However, despite the country's vast resource potential in precious metals, it remains largely underexplored with a lack of investment in the sector, due mainly to low gold prices and the limited availability of foreign debt and equity investments stemming from international sanctions introduced in 2014.

For the Russian economy as a whole, 2017 proved to be a year of moderate improvement as the oil price continued the positive price momentum it gained in 2016, finishing the year at US$60 per barrel. The Russian Rouble also strengthened by 15% year-on-year from 67.1 RUB/USD in 2016 to 58.3 RUB/USD in 2017. Conversely, this had a negative impact on the mining sector, resulting in an increased dollar value of rouble-denominated operating costs across the board and lower Adjusted EBITDA margins.

Although Kazakhstan and Armenia have a significantly smaller share in global gold mine production, these countries have a strong growth profile, attributable to a good climate for foreign investment in the sector as well as some government incentives. The economics of Kazakh gold mining was also supported by the moderate devaluation of the Kazakh Tenge (5% stronger against the US Dollar year-on-year), while the Armenian Dram remains the most stable currency in the Former Soviet Union.

How we respond to these trends

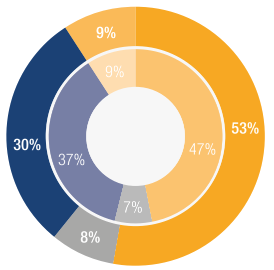
We continue to utilise our 20 years of experience in mine performance optimisation and the pursuit of high-grade and high-optionality assets in order to ensure resilient economics against the backdrop of commodity price and FX volatility. Our strong performance in 2017, with a record 1,433 Koz of GE produced and a net profit of US$354 million, re-affirms the success of our approach and sets us on the right track to deliver on our long-term strategy.

In order to limit our exposure to risk, in the process of project approval, our stress tests are carried out with a 20% discount to spot prices and a 10% increase in operating costs, ensuring that our operations can be sustained even under volatile market conditions. Similarly, we continue to review the prices used for our reserve and resource statement on a regular basis to reflect market fluctuations.

To learn more about our market risk management process, please see page 71.

Precious metals market summary

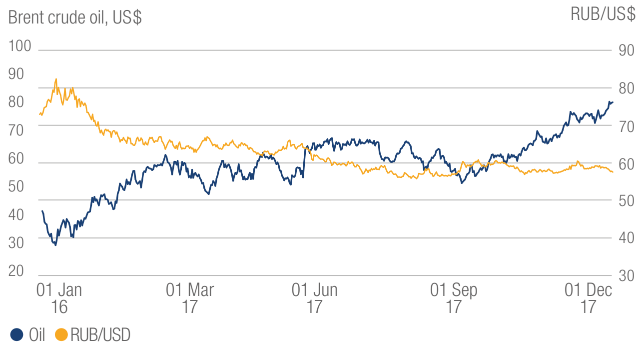
Gold demand by category in 2017 and 2016 (Tonnes)



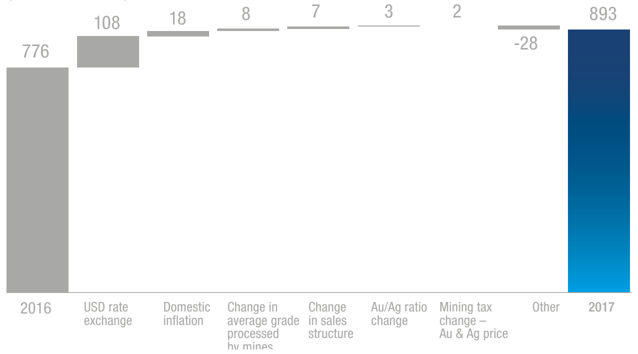
2017	
Jewellery	2,136
Technology	333
Investment	1,232
Central banks & other institutions	371
2016	
Jewellery	2,054
Technology	323
Investment	1,596
Central banks & other institutions	390

Source: Metals Focus; World Gold Council

Currency and oil price



AISC reconciliation (US$/GE oz)



STRATEGY

KEY GOALS COMBINING GROWTH AND DIVIDENDS

1

PAY SIGNIFICANT AND SUSTAINABLE DIVIDENDS THROUGH THE CYCLE

Polymetal already stands out in the mining sector for its dividend policy and track record of substantial dividend payments. We want to continue delivering meaningful cash returns to our shareholders at any stage of the commodity cycle and of our investment cycle through a combination of regular and special dividends.

2

CONTINUE TO GROW OUR BUSINESS WITHOUT DILUTING ITS QUALITY

At the same time, we also want to grow production and, hence, free cash flow, through the addition of new high-grade, value-accretive assets.

	STRATEGIC OBJECTIVES	DESCRIPTION	RISKS	REMUNERATION	PERFORMANCE IN 2017	TARGETS FOR 2018
	Ensure robust operating and financial performance at existing mines	Focus on full-capacity utilisation and robust cost performance of our operating mines by driving continued operating improvement. Extend our life-of-mine by investing in near-mine exploration. This will allow us to generate free cash flow and translate it into significant dividends.	• Production risk • Health and safety risk • Market risk • Exploration risk	Related KPIs for executive management annual bonus: • Achieving production budget (Group CEO and below) • Total cash costs (Group CEO and below) • Health and safety (Group CEO and below) • Resource growth (Chief Geologist and below)	• 1.43 Moz GE produced in 2017, 2% above original guidance • Adjusted EBITDA of US$745 million, almost flat year-on-year despite a stronger Russian Rouble • Free cash flow of US$143 million • Brownfield reserve additions: 1.4 Moz	• 1.55 Moz GE production • Full ramp-up to 2.2 Mtpa at Komar • Commencement of combined float-leach circuit with flotation at Mayskoye • TCC of US$650-700/oz
	Deliver medium-term growth through building and ramping up Kyzyl	The Kyzyl project is a major medium-term growth driver for Polymetal, with an average annual production of 300 Koz from 2019. We are aiming to deliver the first concentrate at Kyzyl in Q3 2018.	• Market risk • Construction and development risk	Related KPIs for executive management • Annual bonus – project delivery on time and budget (Group CEO and below) • LTIP – TSR above peers, which can only be generated by delivering sustainable growth through projects such as Kyzyl	**Amursk:** Completion of construction, commissioning and launch of new desorption sites, completion of filtration sections of the leaching tails and the oxygen station No. 2 **Kyzyl:** 48.5 Mt of stripping volumes 100% completion of external infrastructure and open-pit construction Completion of tailings storage and installation of major processing equipment	• Ramp-up the debottlenecked POX plant in the second half of 2018 • Production of first concentrate in Q3 2018 • Further exploration of identified ore bodies together with an ore reserve estimate
	M&A combined with own exploration efforts	While delivering free cash flow, we want to secure high-quality sources of long-term growth through our own greenfield exploration programme and M&A. We are actively looking attargets within the Former Soviet Union where we can create value with our core competencies.	• Exploration risk • Construction and development risk • Production risk • Political risk	Related KPIs for executive management • LTIP – TSR above peers, which can only be generated by value-accretive deals creating shareholder value	• Increase in mineral resources by 10% to 18.2 Moz of GE • Increase of average grade in mineral resources by 11% to 4.7 g/t of GE • Initial JORC-compliant reserve estimates for Kapan, Lichkvaz and Nezhda • Resource additions: 2.0 Moz	• Further advance resource-and-reserve estimates at brownfield operations • Pre-feasibility study and development decision for Nezhda • Updated resource estimate at Prognoz and Viksha
	Maintain high standards of corporate governance and sustainable development	Maintaining high standards of corporate governance and sustainable development gives us a licence to operate and the much-needed trust of all stakeholders. Health and safety at our operations is a key priority.	• Health and safety risk • Environmental risk • Legal risk • Political risk	• Annual bonus (CEO and below) – 25% weight on H&S performance + additional penalty factor applied to the remaining part of the bonus for any fatalities	• Full compliance with the provisions of the UK Corporate Governance Code • Top rating in environmental responsibility by WWF/UNDP • The highest score for corporate governance and anti-corruption by FTSE4Good • Two fatalities at our mines • Start of comprehensive Board succession programme	• Principal goal of zero fatalities at all operations • Continue implementing a geomechanical management system • Continued compliance with global and local best practices in ESG

KEY PERFORMANCE INDICATORS

Our strategy

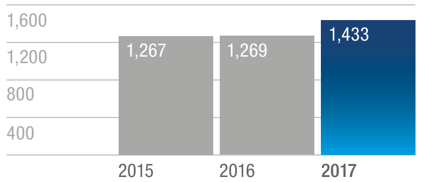
1. Pay significant and sustainable dividends through the cycle
2. Continue to grow our business without diluting its quality

- Deliver robust operating and financial performance
- Deliver medium-term growth
- Build and advance long-term growth pipeline
- Maintain high standards of governance and sustainable development

★ KPI linked to executive remuneration

OPERATING KPIs

Gold equivalent* production (Koz) +13%

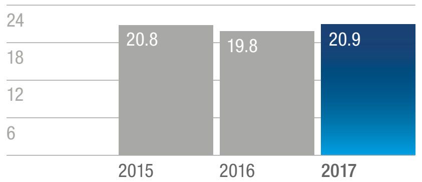


Annual targets for gold equivalent (GE) production are an indicator to the market of our confidence in our operating performance – and one that we regularly exceed.

In 2017, Polymetal delivered a strong operational performance with a record gold equivalent production of 1,433 Koz, a 13% increase year-on-year, meeting our initial production guidance for the sixth consecutive year.

Relevance to strategy: 1

Ore reserves (Moz) +5%



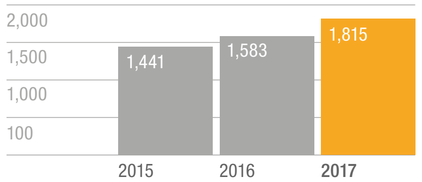
Both extending mine life through near-mine exploration and new discoveries from greenfield exploration contribute to the Company's long-term growth prospects.

In 2017, the Company increased its ore reserves by 5% to 20.9 Moz of gold equivalent on the back of successful exploration at Albazino, Komar and Dukat, as well as initial reserve estimates at Kapan and Nezhda.

Relevance to strategy

FINANCIAL KPIs

Revenue (US$m) +15%

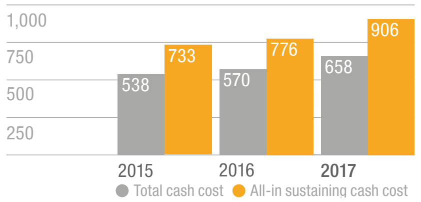


Top-line indicator, heavily depends on commodity prices but also driven by delivery of production volumes.

In 2017, revenue increased by 15% over 2016 to US$1,815 million, primarily driven by GE production growth of 13%. Gold and silver sales volumes both broadly followed the production dynamics.

Relevance to strategy: 1

Total cash cost* +15% / All-in sustaining cash cost +15% (US$/GE oz)

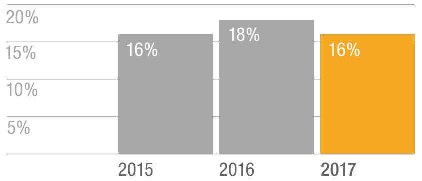


High-grade, full capacity utilisation and continued operating improvement, as well as foreign exchange rates and oil price are the key drivers of total cash cost per ounce.

TCC were US$658/GE oz, up 15% from 2016 levels and within the Company's updated guidance of US$650-675/GE oz. The increase in TCC was predominantly driven by the strengthening of the Russian Rouble. AISC amounted to US$893/GE oz, an increase of 15% year-on-year, driven mostly by the same factor.

Relevance to strategy: 1

Underlying return on equity (ROE) (%) -2pp.

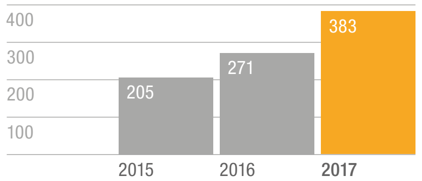


Return on equity is one of the most important metrics for evaluating a company's profitability and measures the efficiency with which a company generates income using the funds that shareholders have invested.

In 2017, return on equity (based on underlying net earnings and average equity adjusted for translation reserve) was 16%, compared with 18% in the prior period, and remains one of the highest in the sector.

Relevance to strategy: 1

Capital expenditure* (US$m) +41%

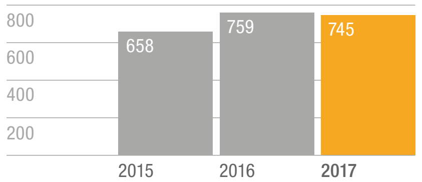


Our rigorous approach to all investment decisions ensures tight controls on capital expenditure, boosting return on invested capital for shareholders and sustainable development for the business.

Capital expenditure came in at US$383 million, up 41% compared with 2016 on the back of accelerated pre-stripping and construction at Kyzyl, as well as an increased brownfield exploration spend across the operating assets portfolio.

Relevance to strategy: 2

Adjusted EBITDA[1] (US$m) -2%

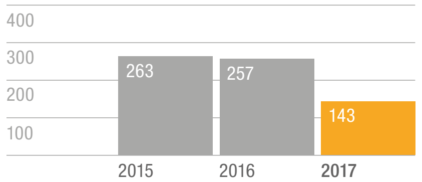


Adjusted EBITDA provides an indicator of our ability to generate operating cash flows from the current business.

Adjusted EBITDA was US$745 million, down 2% compared to 2016, as a result of increased costs incurred due to a stronger Russian Rouble, which largely offset production growth.

Relevance to strategy: 1

Free cash flow[1] (US$m) -44%

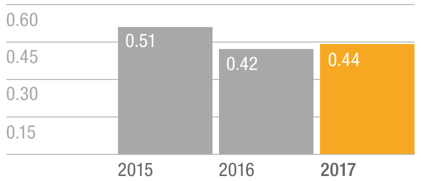


A key indicator in any business. Generating a healthy free cash flow enables us to provide significant cash returns for shareholders.

Despite intensive construction activities at Kyzyl in the course of 2017, the Company continued to generate positive free cash flow[1] that amounted to US$143 million.

Relevance to strategy: 1

Dividends declared for the year (US$/share) +5%

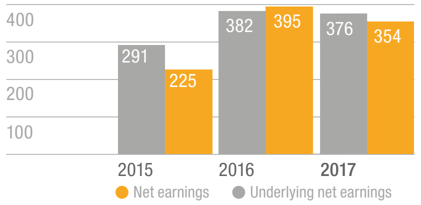


Our aim is to deliver meaningful dividends to our shareholders at all stages of both the commodity cycle and our investment cycle.

In 2017, dividends of US$138 million (0.32 per share) were paid out and a final dividend of US$129 million (US$0.30 per share) is proposed, bringing total dividend declared for the period to US$189 million.

Relevance to strategy: 1

Net earnings -10% / Underlying net earnings[1] -1% (US$m)



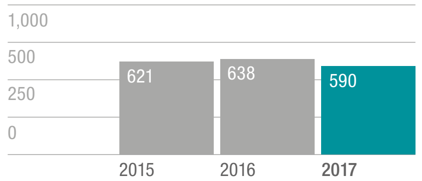
Underlying net income is a comprehensive benchmark of our core profitability excluding foreign exchange gains/losses and impairments.

Underlying net earnings (adjusted for the after-tax amount of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) were US$376 million, almost flat compared with 2016.

Relevance to strategy: 1

SUSTAINABILITY KPIs

GHG emissions intensity (CO_2 equivalent tonnes per 10Kt of ore processed) -8%

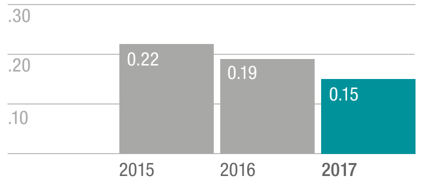


Reducing GHG emissions is one of the core pillars of our long-term commitment to maintaining the highest environmental, social and governance standards.

We are aware of climate change and recognize our responsibility to manage carbon footprint and minimize our GHG and other emissions. This year the part of our energy needs were met through clean energy sources and together with our energy efficiency programs it resulted in GHG intensity decrease of 8%.

Relevance to strategy: 2

Lost time injury frequency rate* (LTIFR) -21%



An improvement in the health and safety of employees at our operations is a key priority with a goal of zero fatalities.

Sadly, the Company did not manage to reach its zero fatalities target in 2017, with two lives lost at the Group's operations during the year. Nevertheless, Polymetal notes a visible improvement in its overall health and safety performance, with a 21% reduction in LTIFR compared with 2016.

Relevance to strategy: 2

[1] The definition and calculation of non-IFRS measures, including Adjusted EBITDA, Total cash costs, All-in cash costs, Underlying net earnings, Net debt, and the related ratios are defined in the Alternative Performance Measures section on pages 168-169.

OPERATING REVIEW

"In 2017, Polymetal delivered a strong operational performance with a record GE production of 1,433 Koz, meeting our production guidance for the sixth consecutive year. We expect further production growth in 2018, coming mainly from Kyzyl but also from Komar's full ramp-up and our existing mines continuing to deliver stable performances."

KEY OPERATING HIGHLIGHTS

	2017	2016	Change
Stripping, Mt	114.0	82.1	+39%
Underground development, km	115.4	92.2	+25%
Ore mined, Kt	12,589	13,380	-6%
Open-pit	8,241	9,506	-13%
Underground	4,347	3,874	+12%
Ore processed, Kt	13,037	11,417	+14%
Average grade in ore processed (gold equivalent, g/t)	3.9	4.0	-4%
Production			
Gold, Koz	1,075	890	+21%
Silver, Moz	26.8	29.2	-8%
Copper, Kt	2.7	1.5	+87%
Zinc, Kt	4.8	2.900	+66%
Gold equivalent, Koz[1]	1,433	1,269	+13%
Sales			
Gold, Koz	1,090	880	+24%
Silver, Moz	26.5	30.7	-14%
Copper, Kt	2.6	1.6	+57%
Zinc, Kt	4.7	2.8	+68%
Gold equivalent, Koz[2]	1,456	1,301	+12%
Average headcount	10,953	10,813	+1%
Health and safety			
Fatalities	2	4	-50%
LTIFR	0.15	0.19	-21%

[1] Based on 1:80 Ag/Au, 5:1 Cu/Au and 2:1 Zn/Au conversion ratios.
[2] Based on actual realised prices.

A record-breaking year

In 2017, Polymetal delivered a strong operational performance with a record gold equivalent production of 1,433 Koz, a 13% increase year-on-year, meeting our initial production guidance for the sixth consecutive year. The robust finish to the year was driven by contributions from the fully ramped-up Svetloye heap leach (Okhotsk hub), as well as a solid performance at Komar (Varvara hub), Omolon and Amursk-Albazino.

Gold production totalled 1,075 Koz, a 21% increase year-on-year, allowing Polymetal to join the prestigious 1 Moz club, the second premium-listed gold company on the London Stock Exchange to achieve this important milestone. Silver production was down 8% to 26.8 Moz, due to the planned grade decline at the Dukat and Lunnoye underground mines.

Gold sales were 1,099 Koz, up 25% year-on-year, while silver sales were down 14% year-on-year at 26.5 Moz, generally in line with production dynamics and volume.

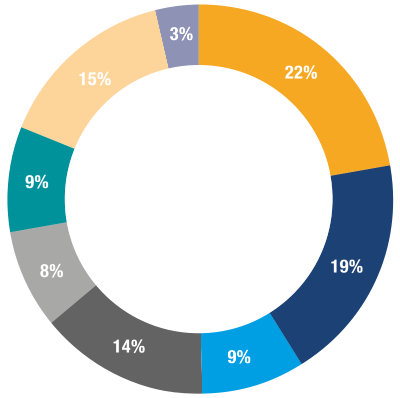
Analysis of production results

Mining

Stripping volumes in 2017 grew by 39% to 114 Mt of rock moved, driven mostly by drill-and-blast pre-stripping at Kyzyl and the removal of historic waste stockpiles at Komar.

Underground development increased by a further 25% to 115 km (2016: 92.2 km), with increased capacity to match processing volumes at Kapan underground mine, as well as underground development for new brownfield extensions at an active pace at Omolon hub (Birkachan and Olcha) and at Dukat hub (Perevalnoye and Terem). At Olcha, first ore stopes were extracted at the underground mine, where development is in full swing. Underground development at Perevalnoye and Terem is making good progress with both ore sources expected to make significant contributions to the feed at the Omsukchan concentrator in 2018.

Gold equivalent production by mine in 2017



	Koz 2017	Koz 2016	Change
Dukat	322	369	-13%
Albazino/Amursk	269	244	+10%
Mayskoye	124	116	+7%
Omolon	202	170	+19%
Voro	120	129	-7%
Varvara	130	85	+54%
Okhotsk	217	131	+65%
Kapan	50	26	+94%
Total	1,433	1,269	+13%

Ore mined decreased by 6% year-on-year to 12.6 Mt (2016: 13.4 Mt), mainly as a result of the completion of open-pit mining at Oroch and a temporary suspension at Birkachan (where sufficient historic ore stockpiles are available).

Processing

Ore processed increased by 14% to 13.0 Mt (2016: 11.4 Mt), mainly on the back of the resumption of the Birkachan heap leach project and the ramp-up of Svetloye.

As expected, the average gold equivalent grade in ore processed decreased slightly from 4.0 g/t to 3.9 g/t, while remaining close to average reserve grade. The decline came mostly from mature operations: the normalisation of the grade profile at the Dukat and Lunnoye mines; a scheduled slight decline in average grades at the Voro heap leach facility; and a lower gold average grade at Omolon's Kubaka plant due to a change in the feedstock mix.

Production and sales

In 2017, Polymetal continued to deliver solid production results, producing 1.4 Moz of gold equivalent, up 13% year-on-year. Key drivers behind this performance were Svetloye (Okhotsk hub), Komar (Varvara hub), Omolon and Amursk-Albazino.

At Okhotsk operations, Svetloye heap leach was ramped-up to full capacity, making a significant contribution to the Group's strong performance and delivering superior results: GE production was 106 Koz compared with 23 Koz in 2016. Komar provided valuable support to the Varvara operations: almost 2 Mt of Komar ore was mined and railed to the Varvara hub, resulting in a record GE production of 123 Koz, up 53% year-on-year. At Kapan, GE production almost doubled: a good operational performance was driven by increased processing volumes and improved head grades on the back of ongoing measures to debottleneck the underground mine and improve recovery levels.

Albazino/Amursk achieved record gold production of 269 Koz, up 10% year-on-year, driven by higher productivity and recovery levels, as well as a significant improvement in head grades. At Dukat, there was a 13% decline in GE production, where higher processing volumes and improved recoveries failed to offset declining grades. This is partially due to a reduction in cut-off grades, which take into account lower mining costs, lower treatment charges and higher recoveries.

Metal sales in 2017 were 1,468 Koz of gold equivalent, up 13% compared with 2016, broadly following the production dynamics. While most of the sales are comprised of refined metals, we continue to sell concentrates from Dukat (gold/silver), Varvara (gold/copper), Kapan (gold/copper and gold/zinc) and Mayskoye (refractory gold) to different offtakers worldwide. Offtake allows us to maximise our margins and achieve an optimal combination of transportation costs and treatment charges/recoveries, this being one of our core competencies. In February 2018, Polymetal also secured its first offtake contract for Kyzyl concentrate.

Exploration

Exploration – greenfield and brownfield – is a core element in our strategy for driving future growth and has proved to be one of the most efficient growth sources for Polymetal historically. Both extending mine life through near-mine exploration at existing operations and new discoveries from greenfield exploration contribute to the Company's long-term development prospects. Our exploration activities are focused on six regions in Russia – Khabarovsk, Magadan, Karelia, Yakutia, Chukotka and Urals – as well as on Kazakhstan and Armenia.

Four new licences were obtained over the course of 2017, bringing the total number to 82, of which 60 are currently involved in active exploration activities.

Our key exploration objectives in 2017

- Brownfield exploration and resource-to-reserve conversions and resource upgrades at our brownfield projects with particular focus mature assets: Omolon (Irbychan and Yolochka); Voro (Saum) and Okhotsk (Levoberezhny, Gyrbykan, and Kundumi);
- a comprehensive exploration campaign at Dukat (the deeper levels of Lunnoye deposit, Primorskoye and Perevalnoye) with a goal to extend the scope of resource estimates;
- an initial JORC reserve-and-resource estimate at Nezhda's zone 1 and further drilling on smaller, potentially mineralised zones;
- 37 km of diamond drilling at the Prognoz silver deposit to confirm the resources of Main and Swamp ore zones;
- a JORC-compliant reserve estimate and a combined life-of-mine plan for Kapan and Lichkvaz;
- 30 km of step-out drilling at Komar and an update of the reserve-and-resource estimates for the deposit; and
- continuing step-out and deep-level drilling at Kyzyl.

Key 2017 achievements

In 2017, Polymetal succeeded in extending the life-of-mine at producing assets and continued to invest in the next phase of our growth. The Company completed 421 km of exploration drilling in 2017, up 48% year-on-year with the scope of exploration expanding to include our new assets, mostly Prognoz and Nezhda joint ventures, in addition to continued exploration efforts at existing operations. The total capital expenditure on exploration was US$58 million, up 43% compared with 2016.

As a result of our exploration efforts, significant resource-to-reserve conversions were achieved during the year, along with the completion of new reserve-and-resource estimates for several projects, including:

- at Albazino, the initial ore reserve estimate for Farida open-pit (169 Koz GE) and Anfisa underground (47 Koz GE);
- significant ore reserves increase of 524 Koz of gold (+49%) at Komar;
- an initial JORC-compliant reserve estimate at Kapan, which comprised 558 Koz GE at an average grade of 4.3 g/t. Additional mineral resources were estimated at 1,632 Koz GE at an average grade of 6.1 g/t;
- an initial JORC-compliant reserve estimate at Lichkvaz comprised 134 Koz GE at 3.9 g/t, while additional mineral resources amounted to 257 Koz GE at 5.0 g/t; and
- at Nezhda, an initial JORC-compliant ore reserve estimate for open-pit mining at ore zone 1 that comprised (on a 100% ownership basis) 15.5 Mt of ore with an average grade of 4.0 g/t GE containing 2.0 Moz of GE[1]. Additional mineral resources for Nezhda were estimated at 55.9 Mt of ore with an average grade of GE 5.0 g/t, containing 8.9 Moz of GE[2].

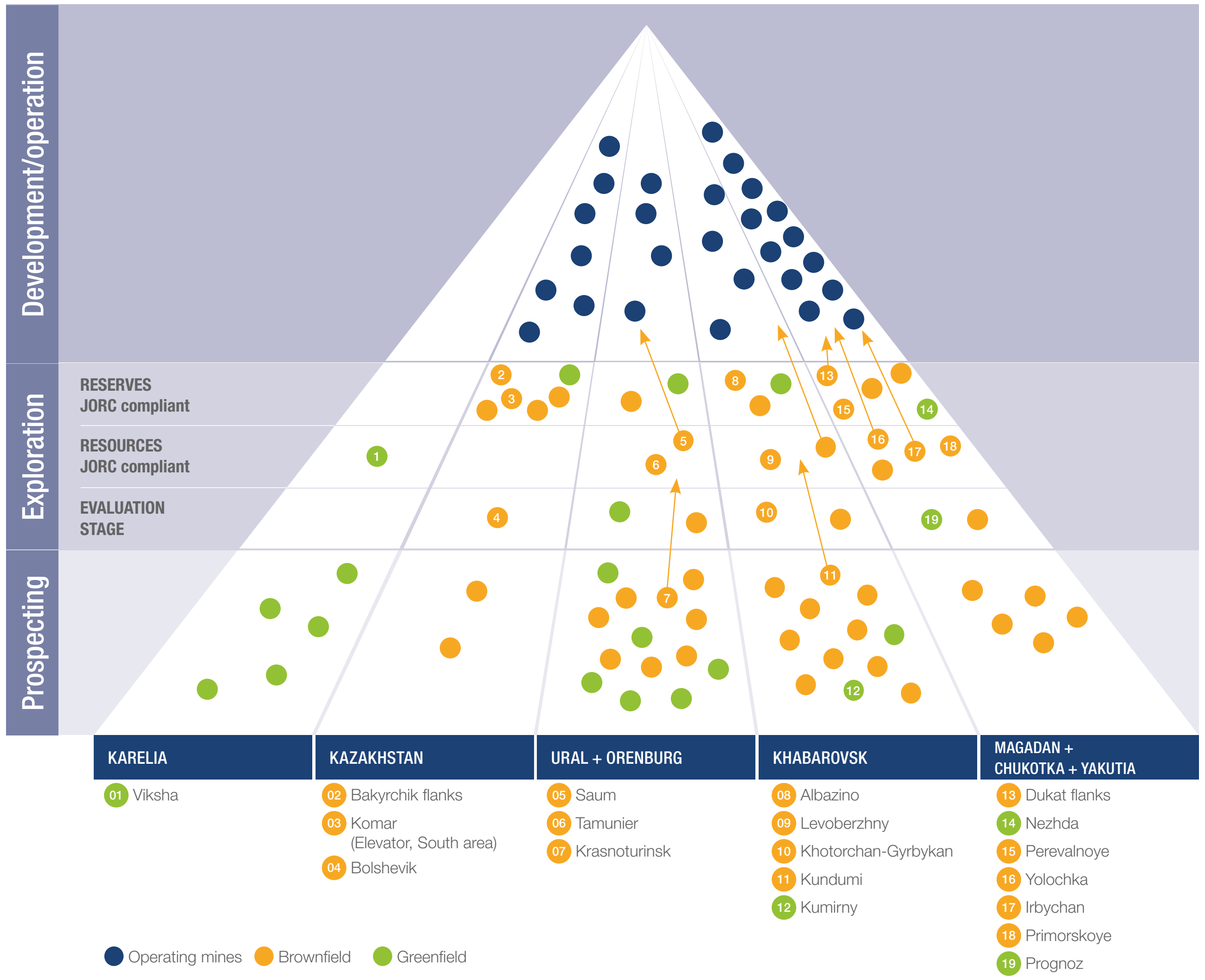
2018 targets

In 2018, Polymetal will continue to invest in exploration with the goal of expanding the pace and scope of drilling, as well as a prospect evaluation. The key objectives are as follows:

- to achieve resource-to-reserve conversions at existing operations with relatively shorter life-of-mine;
- Polymetal aims to complete initial ore reserves estimates for the following deposits in 2018: Irbychan and Yolochka at Omolon; Saum and Pesherny at Voro; Levoberezhny and Kundumi at Okhotsk; Primorskoye and Perevalnoye (revaluation) at Dukat;
- to prepare an updated mineral resources estimate and achieve resource-to-reserve conversion at Nezhda to include the southern flank of ore zone 1 and smaller mineralised zones;
- to complete an audited JORC-compliant resource estimate for Prognoz largest ore zones, Main and Swamp;
- to prepare an updated mineral resources estimate for Viksha, based on new drilling data and metallurgical studies; and
- to continue step-out and in-fill drilling at Kyzyl to increase reserves for open-pit mining.

[1] 350 Koz pro rata to Polymetal's current ownership of 17.66%.
[2] 1,576 Koz of GE pro rata to Polymetal's current ownership of 17.66%.

EXPLORATION PROJECTS



Exploration areas and volumes (mine site exploration excluded)[1]

Brownfield

	Drilling, km	
	2017	2016
Voro	**11.0**	**13.7**
Voro flanks	3.1	1.9
Tamunier	1.0	6.2
Other	6.8	5.6
Varvara	**108.5**	**75.8**
Varvara	35.6	23.6
Komar	71.4	44.6
Other	1.5	7.6
Dukat hub	**28.8**	**51.3**
Dukat flanks	15.8	17.2
Lunnoye flanks	2.3	13.8
Primorskoye	6.9	11.0
Terem	3.8	4.7
Other	–	4.5
Albazino	**30.2**	**27.9**
Mayskoye	**33.4**	**–**
Okhotsk hub	**48.0**	**28.2**
Khotorchan/Gyrbykan	6.4	7.0
Svetloye	2.0	0.6
Maimakan-Kundumi	12.8	2.5
Levoberezhny	15.2	8.3
Kumirniy	6.6	–
Other	5.1	9.8
Omolon hub	**18.4**	**32.8**
Olcha	2.6	–
Oroch	–	1.7
Yolochka	6.7	5.9
Irbychan	4.7	11.6
Nevenrekan	4.4	8.4
Other	–	5.1
Kyzyl project	**8.3**	**10.5**
Bakyrchik	8.3	5.7
Bolshevik	–	4.9
Subtotal	**286.7**	**240.1**

[1] Discrepancies in calculations are due to rounding.

Greenfield

	Drilling, km	
	2017	2016
Urals	**22.9**	**6.2**
Karelia (Viksha)	**39.6**	**12.8**
Yakutia	**70.9**	**39.4**
Nezhda	33.7	39.4
Prognoz	37.3	–
Armenia	**0.8**	**25.2**
Lichkvaz	–	24.0
Other	0.8	1.2
Subtotal	**134.2**	**44.2**
Total	**420.9**	**284.3**

Reserves and resources

In 2017, the Company increased its ore reserves by 5% to 20.9 Moz of GE on the back of successful exploration at Albazino, Komar and Dukat, as well as initial reserve estimates at Kapan and Nezhda. Gold reserves were up 5% at 18.4 Moz, while silver reserves decreased 3% to 158 Moz. At the same time, copper reserves grew 25% to 82 Kt.

Mineral resources (in addition to ore reserves) increased by 10% to 18.2 Moz of GE, mainly driven by initial resource estimates for the Pesherniy and Nezhda deposits, as well as resource additions at the deeper levels of Mayskoye and Dukat.

The average grade in ore reserves was stable year-on-year at 3.9 g/t of GE and remains one of the highest in the sector. At the same time, the average grade in mineral resources increased by 11 % to 4.7 g/t of GE due to high-grade resource additions at new projects.

We expect 2018 to result in further significant extensions of our reserves and resources.

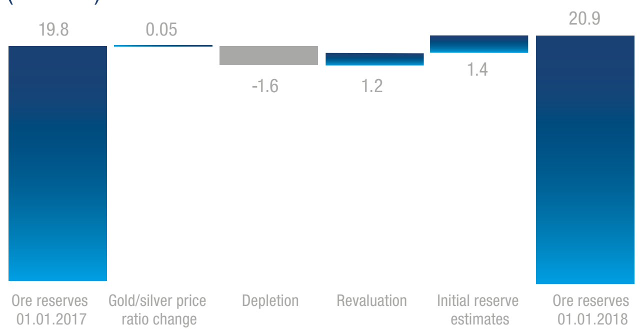
Ore Reserves and Mineral Resources summary[1]

	1 January 2018	1 January 2017	Change
Ore reserves (proved + probable), gold equivalent Moz	**20.9**	**19.8**	**5%**
Gold, Moz	18.4	17.6	5%
Silver, Moz	158.0	163.0	-3%
Copper, Kt	81.6	65.4	25%
Zinc, Kt[2]	85.8	NA	NA
Average reserve grade, g/t	3.9	3.8	+1%
Mineral resources (measured + indicated + inferred), gold equivalent Moz	**18.2**	**16.5**	**10%**
Gold, Moz	15.7	14.4	9%
Silver, Moz	109.1	87.5	25%
Copper, Kt	147.9	206.7	-28%
Zinc, Kt[2]	221.8	NA	NA
Average resource grade, g/t	**4.7**	**4.2**	**11%**

[1] Mineral resources are additional to ore reserves. Mineral resources and ore reserves of lead are not presented due to the immateriality and are not included in the calculation of the gold equivalent. PGM mineral resources are presented separately and are not included in the calculation of the gold equivalent. Discrepancies in calculations are due to rounding.

[2] Zinc was not included in the calculation of the gold equivalent for the ore reserves and mineral resource statement as at 01.01.2017 due to immateriality.

Ore reserves reconciliation (GE Moz)



Outlook for 2018

During 2018, we have an important year ahead of us with the first production from Kyzyl, which is set to deliver free cash flow soon after ramp-up. This will pave the way for further investment decisions by the end of the year: the construction plans for Nezhda and the feasibility study for a second POX line at Amursk. In the meantime, we will continue to focus on sustaining robust operating performance at mature operations and advancing our long-term project pipeline, including Prognoz and Viksha.

We expect further production growth in 2018, coming mainly from Kyzyl but also from Komar's (Varvara hub) full ramp-up to 2.2 Mtpa and our existing mines continuing to deliver stable performances. At Mayskoye, a combined float-leach circuit with flotation will commence operation in May 2018, while open-pit mining will resume in Q1 2018.

The launch of the Kyzyl project is scheduled for Q3 2018 and is much anticipated both within the Company and by all our stakeholders. At the processing facility, construction activities will be focused on the installation of smaller technological equipment. In Q1 to Q3 2018, we will commission the accomodation camp, engineering networks and facilities, warehouse facilities, and heat and power complex, as well as the tailing dump and the main concentrator complex. Kyzyl remains on track to produce the first concentrate in Q3 2018. In January 2018, the first ore was mined from the open-pit ahead of schedule. Polymetal is on track to ramp up the debottlenecked POX plant in the second half of 2018, in time to take feed from the Kyzyl concentrator.

We will also focus on our new projects that will drive growth beyond the launch of Kyzyl. We plan to advance the feasibility studies for Nezhda and POX-2 projects and continue the drilling campaign at the Prognoz silver project, with an updated resource estimate scheduled for Q4 2018.

The Company reiterates its production guidance for 2018 and 2019 of 1.55 Moz and 1.7 Moz of gold equivalent, respectively. The main growth drivers will be the ramp-up of Kyzyl, re-commissioning of the oxide circuit at Mayskoye and incremental improvements at Varvara and Kapan. This should offset anticipated grade declines at Khakanja and Voro. As previously, production in both years will be weighted towards the second half of the year due to seasonality.

Our focus remains on health and safety, where we are yet to achieve our principal goal of zero fatalities at all operations. In 2018, we will continue implementing a geomechanical management system that will help eliminate accidents related to mining processes.

Vitaly Savchenko
Chief Operating Officer

OPERATING ASSETS

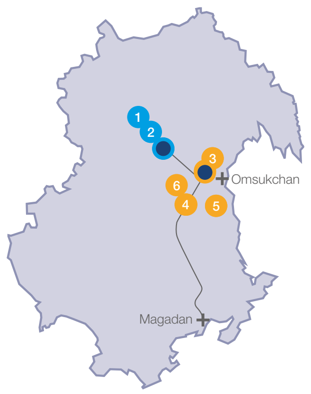
DUKAT

RUSSIA'S LARGEST SILVER MINE AND OUR CORE OPERATION

Mines[1]
1. Arylakh
2. Lunnoye
3. Nachalny-2
4. Dukat
5. Goltsovoye
6. Perevalnoye

Processing plants
- Omsukchan (flotation/gravity)
- Lunnoye (cyanide leaching and Merrill-Crowe)

\+ Town



LOCATION
Magadan Region, Russia

MANAGING DIRECTOR
Mikhail Egorov

EMPLOYEES
1,897

MINING
Underground

PROCESSING
2.0 Mtpa flotation (Omsukchan), 450 Ktpa Merrill-Crowe (Lunnoye)

PRODUCTION START DATE
2000

LIFE OF MINE
2023 (Lunnoye), 2023 (Dukat)

[1] Processing plants and the mines feeding them are marked in the same colour.

3rd
largest world primary silver mine[2]

2.4 Mt
Ore processed (+3%)

22.5 Moz
2017 silver production

US$8.2/SE oz
Total cash cost (2016: US$6.4/SE oz)

Despite a moderate scheduled decrease in production driven by grade profile, Dukat continues to be the major contributor to EBITDA and free cash flow. In 2017, the hub delivered on our targets and produced 22.5 Moz of silver.

Mining

The amount of ore mined at the Dukat hub in 2017 increased by 6% year-on-year to 2.4 Mt, and underground development was up 17% year-on-year at 54 km.

At Dukat, for the third consecutive year, the volume of ore mined remained virtually unchanged at a record level of 1,605 Kt. Underground development decreased by 4% to 34 km. Average silver grade decreased by 19% to 306 g/t in accordance with the mine plan. The effectiveness of underground works was enhanced thanks to the increased productivity of drilling rigs.

At Goltsovoye, mining volumes increased by 4% to 190 Kt, while underground development was up 15%, mainly due to the continued increase in mining works at deep levels and flank areas. Average silver grade remained almost unchanged at 366 g/t.

At Lunnoye, a record amount of ore was mined and processed in 2017 (up 27% year-on-year) as stoping continued at the new zone 5 vein. Lower silver grade of 352 g/t, a 23% decrease compared with the prior period, is mostly attributable to the depletion of the high-grade portion of zone 7.

There has been good progress with the underground development at two brownfield sites, Perevalnoye and Terem, with both ore sources expected to make significant contributions to the feed at the Omsukchan concentrator in 2018.

Processing and production

Full-year silver production at the Dukat hub was 22.5 Moz, a decrease of 12% over the previous year, as higher processing volumes and improved recoveries did not offset declining grades. Lower grades in the feed were partially the result of reduced cut-off grades, which take into account lower mining costs, lower treatment charges and higher recoveries.

At the same time, the Dukat concentrator set a new throughput record, processing 1,979 Kt of ore in 2017, while maintaining stable recoveries (86.3% for gold and a 4% increase for silver to 88.6%) on the back of continuous improvement in the ore quality control system, based on geological and process mapping. Average grades decreased by 26% for gold to 0.4 g/t and by 14% for silver to 321 g/t. Gold and silver production decreased by 23% and 11%, respectively, to 24.2 Koz of gold and 17.7 Moz of silver.

The Lunnoye plant delivered a robust set of results: ore processed grew by 6% year-on-year to 460 Kt, while average gold and silver grades were down 17% and 19%, respectively. Average recoveries were strong at 90.3% for gold and 92.8% for silver. Annual production at Lunnoye was 4.8 Moz of silver, down 14% year-on-year due to the change in grade profile.

DUKAT CONTINUED

Resources and exploration

At the Dukat hub, the Company achieved a 70% increase in additional mineral resources. This success was primarily driven by additional exploration at the deeper levels of the Lunnoye deposit and the discovery of previously unknown veins at the Dukat flanks. In 2018, prospecting activities are set to continue at the northern and eastern flanks of Dukat.

At the Primorskoye property, 6.9 km of exploration drilling was completed at ore zones 1 and 3 with a goal to trace ore bodies along the strike and at depth. In 2018, the Company intends to conduct further prospecting activities at other ore zones with the goal to increase the resource base of the deposit and delineate ore bodies in zones 1 and 3.

At Perevalnoye, exploration continued by in-fill drilling from the underground with trial ore stoping expected to lead to a material upgrade in resources at the deposit.

PRIORITIES FOR 2018

> Extending the life-of-mine to 2027 while maintaining stable costs: start of production from high-grade satellite deposits. (Terem and Perevalnoye) and step-out exploration at deeper flanks of Dukat and Lunnoye.
> Slowing down grade erosion and production decline.
> Improving processing capacity utilisation.
> Commissioning a second thickener at Omsukchan concentrator.
> The reconstruction of the tailing dump #3.

[2] According to World Silver Survey 2017 by the Silver Institute.

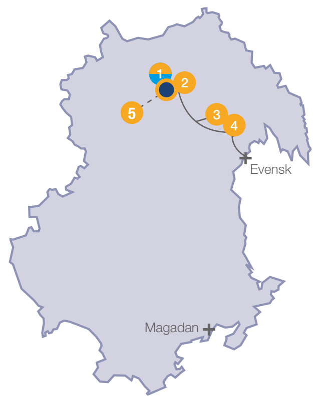
OMOLON

OUR MOST VERSATILE PROCESSING HUB: LOW-CAPITAL INTENSITY WITH MULTIPLE SOURCES OF HIGH-GRADE FEEDSTOCK

Mines
1. Birkachan
2. Tsokol
3. Oroch
4. Sopka
5. Olcha

Processing plants
- Kubaka (CIL, Merrill-Crowe) Lunnoye
- Birkachan (heap leach)

\+ Town



LOCATION
Magadan Region, Russia

MANAGING DIRECTOR
Vladimir Bloshkin

EMPLOYEES
725

MINING
Open-pit/underground

PROCESSING
860 Ktpa CIP/ Merrill-Crowe (Kubaka)

PRODUCTION START DATE
2010

LIFE OF MINE
2024

[1] Processing plants and the mines feeding them are marked in the same colour.

202 Koz
GE production (+19%)

US$652/GE oz
Total cash costs/GE oz (2016: US$503/GE oz)

22.5 Moz
2017 silver production

US$120m
Adjusted EBITDA (2016: US$116m)

OPERATING ASSETS

OMOLON CONTINUED

Omolon delivered strong operating and financial performance in 2017, with gold equivalent production increasing by 19% to 202 Koz. Adjusted EBITDA increased by 3% to US$120 million, despite the appreciation of Russian Rouble, which negatively affected total cash costs.

Mining

In 2017, the total ore mined decreased by 69% to 692 Kt, driven mainly by the completion of open-pit mining at Oroch and the temporary suspension of open-pit mining at Birkachan due to the availability of sufficient historic ore stockpiles. Underground development almost doubled to 11.5 km on the back of ramping up underground mining at Birkachan and Tsokol.

At Sopka, open-pit mining is proceeding as planned, with 261 Kt of mined ore to be transported to the Kubaka mill for processing in Q1 2018. Open-pit mining at Sopka is expected to wind down in Q2 2018.

At Tsokol, underground development continued with 153 Kt of ore mined and a slight decrease in the average gold grade to 10.4 g/t.

At Birkachan, ore mined decreased by 88% to 114 Kt, as open-pit activities are now complete, with personnel transferred to Olcha where the first ore stopes were extracted and development is in full swing.

Processing

Omolon delivered a robust set of production results for the year, with gold equivalent production up 19% year-on-year at 202 Koz. The increase is attributable to significantly improved gold grades and recovery levels at the Kubaka processing plant due to the continuing increase in the levels of higher-grade ore from the Tsokol and Birkachan underground mines.

Throughput at the Kubaka mill remained stable, with 858 Kt of ore processed during 2017 (up 2% year-on-year). Recoveries increased by 2% to 94.2% for gold and decreased by 2% to 83.9% for silver. Average grades processed were up 13% for gold at 6.7 g/t and remained stable for silver at 90 g/t.

In Q2 2018, we plan to increase the pace of heap leaching at Birkachan; in 2017 a total 459 Kt of ore were stacked and the leaching resumed.

Exploration

At Omolon, the completion of initial ore reserve estimates for new veins at Birkachan and Sopka open-pit have largely offset reserve depletion in 2017.

At Irbychan, exploration has previously focused on in-fill drilling at the Central and Northern ore zones. In 2018, the focus will shift to the Eastern zone.

At Yolochka, 6.7 km of in-fill drilling was completed at the Central and Southern zones. Both zones remain open at depth. The Company also completed prospecting drilling at the flanks and the Promezhutochnaya zone.

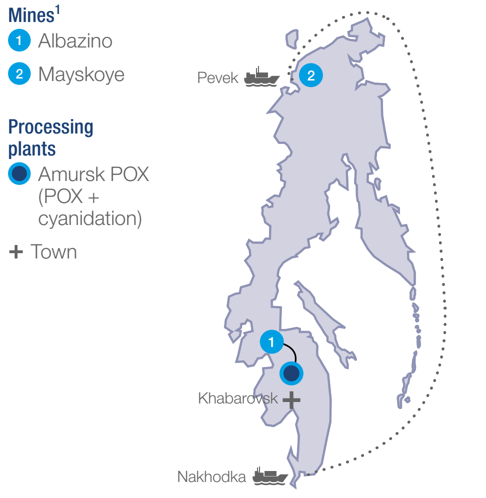
At Nevenrekan, exploration activities were previously focused on in-fill drilling at zone 2, with several high-grade intercepts confirming potential for profitable underground mining. As a result of prospecting drilling at ore zone 1 new high-grade ore zones were discovered. In 2018, the Company plans to complete regular drilling at zones 1 and 5 as well as surveying activities at the flanks of the deposit.

PRIORITIES FOR 2018

> Advancing life-of-mine extension options.
> Continued resource-and-reserve accretion at Olcha, Sopka, Nevenrekan, Yolochka.
> The resumption of and achievement of target productivity at Birkachan heap leaching.

AMURSK POX

UNIQUE PROCESSING CENTRE FOR REFRACTORY GOLD CONCENTRATES IN THE RUSSIAN FAR EAST



LOCATION
Khabarovsk Territory, Russia

PROCESSING
500 tpd POX + cyanidation

MANAGING DIRECTOR
Vadim Kipot

PRODUCTION START DATE
2011

EMPLOYEES
370

280 Koz
Total hub gold production (+3%)

96.4%
POX recovery (+2%)

160 Kt
Concentrate processed (-3%)

Expansion of the targets for Amursk POX plant and the doubling in the current POX capacity, in terms of sulphur oxidation, will enable Polymetal to retain approximately 50% of Kyzyl concentrate for in-house treatment, as opposed to a third-party offtake. This is expected to improve effective gold recovery from concentrate, as well as bringing down the processing and transportation costs.

2017 highlights

In 2017, the Amursk POX plant worked steadily at design parameters. Concentrate processed remained stable at 160 Kt (2016: 166 Kt), while total gold production amounted to 280 Koz of gold equivalent (up 3% year-on-year), thanks to the optimal processing of feedstock mix and despite two maintenance shutdowns (one for seven weeks), which were required to install equipment needed for the expansion.

Concentrate processed from Albazino was 154 Kt (up 3% year-on-year), while the average gold grade increased by 12% year-on-year to 58.3 g/t. Concentrate processed from Mayskoye decreased by 63% to 6 Kt, as the capacity at Amursk POX was taken up by higher-grade and higher-margin third-party material. The average grade was 49.6 g/t (down 10% year-on-year). Recoveries from both Albazino and Mayskoye concentrate exceeded the design levels at 96.4% and 96.2%, respectively, and a record recovery level of 97.2% was achieved in Q4 2017.

Amursk POX expansion

The debottlenecking project at the Amursk POX is progressing on schedule. The oxygen plant has arrived on site and equipment installation is under way, including new filter presses for tails and gypsum sediment. In 2017, the construction, commissioning and launch of new desorption section and control filtration were completed. The autoclave oxidation section was modernised. Construction of the filtration sections of the leaching tails and oxygen station No. 2 have also been completed.

Polymetal plans to ramp-up the debottlenecked POX plant in the second half of 2018, just in time to take first feed from the Kyzyl concentrator.

Polymetal is continuing to undertake extensive metallurgical testwork and evaluate its ability to use high-temperature (230-240C) POX technology to process high-carbon Kyzyl concentrate and third-party feedstocks. The project will enable Polymetal to materially improve the economics of refractory gold projects by increasing gold recovery from concentrates and bringing down processing and transportation costs, and will also strengthen Polymetal's commercial position on the concentrate market vis-à-vis offtakers. A decision on the construction of the second POX is expected in late 2018, in conjunction with the ramp-up of Kyzyl and an investment decision on Nezhda project.

PRIORITIES FOR 2018

> Completion of the POX debottlenecking project in Q3 2018.
> Processing of Kyzyl concentrate at the designed recovery of 96%.
> Processing of all concentrate from Albazino and loaded carbon from the Mayskoye float-leach circuit.
> Complete feasibility study for second POX line

OPERATING ASSETS

ALBAZINO

HIGH-GRADE PROFILE AND SOLID PERFORMANCE

Mines
1 Albazino

Processing plants
Albazino concentrator followed by Amursk POX (POX + cyanidation)

+ Town
Sea port

LOCATION
Khabarovsk Territory, Russia

MANAGING DIRECTOR
Alexei Sharabarin

EMPLOYEES
988

MINING
Open-pit/underground

PROCESSING
1.6 Mtpa flotation

PRODUCTION START DATE
2011

LIFE OF MINE
2031

269 Koz
Total gold production (+10%)

US$157m
Adjusted EBITDA (2016: US$167 million)

154 Kt
Concentrate processed at the Amursk POX (+3%)

1,725 Kt
Ore processed (2016: 1,654 Kt)

In 2017, Albazino demonstrated an excellent operating performance and achieved record gold production of 268.5 Koz, up 10% year-on-year. This was driven by increased recovery levels and higher hourly productivity, as well as increased volumes of third-party material processing at the Amursk POX.

Mining

At the Albazino underground mine, productivity continued to improve with full transition to partially consolidated backfill in primary stopes. There was a substantial improvement in both the extent of underground development and the volume of ore mined, up year-on-year by 33% and 20%, respectively. However, the amount of ore mined from the open-pit decreased 5% year-on-year to 1,512 Kt. As a result, the total amount of ore mined was 1,832 Kt and remained almost flat year-on-year.

Open-pit mining at the Olga pit was completed in Q4 with all the equipment now moved to the Ekaterina-1 pit.

Processing

Ore processed grew by 4% year-on-year to 1,725 Kt, while average gold grade in ore processed declined by 3% to 4.9 g/t in line with the mine plan grade profile. Gold recoveries at the Albazino concentrator were 87.5% while concentrate yield was 8%. Incremental continuous improvements in throughput and recovery at the Albazino concentrator ensured production growth, despite the decrease in grade. In 2017, the concentrate loading station was upgraded and the third stage of the tailing dump was commissioned.

Concentrate of 141 Kt with an average grade of 52.3 g/t was produced, up 3% year-on-year. All concentrate was processed at the Amursk POX plant. The total gold production for 2017 was 269 Koz, a 10% increase on the previous year, driven mostly by improved recoveries at the Amursk POX plant and processing of third-party material.

Exploration and development

In 2017, successful exploration results were achieved at Albazino. Ore reserves increased by 12% year-on-year to 2.3 Moz GE, driven by the initial ore reserve estimate for Farida open pit (169 Koz GE) and Anfisa underground (47 Koz GE).

In 2018, exploration will focus on delineating resources and estimating mineral resources at new ore zones, namely Tatiana and Kuyan.

PRIORITIES FOR 2018

> Acceleration of satellite open-pit development (Ekaterina-2).
> Continued resource-to-reserve conversion in the underground mine.
> Continued near-mine exploration.
> Further enhancing the design of the SAG mill liners, further increasing throughput.
> Stable production profile with an increased contribution from the underground mine.

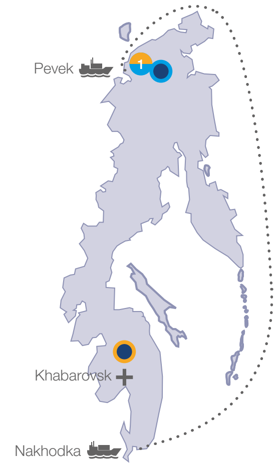
MAYSKOYE

LONG-LIFE HIGH-GRADE REFRACTORY GOLD MINE

Mines
Mayskoye

Processing plants
Amursk POX (POX + cyanidation)
Mayskoye concentration

+ Town
Sea port



LOCATION
Chukotka, Russia

MANAGING DIRECTOR
Evgeniy Tsybin

EMPLOYEES
977

MINING
Open-pit/underground

PROCESSING
850 Ktpa flotation, offtake/Amursk POX

PRODUCTION START DATE
2013

LIFE OF MINE
2034 (based on Reserves & Resources)

[1] Processing plants and the mines feeding them are marked in the same colour.

124 Koz
Total gold production (+7%)

96.2%
POX recovery (2016: 94.4%)

711 Kt
Ore processed incl. leaching (-7%)

6.6 g/t
Average reserve grade

In 2017, Mayskoye delivered a 124 Koz contribution to the Group's total production, a 7% increase compared with 2016. Production was entirely from concentrate offtake to China since the POX capacity was taken by higher-margin, third-party material. We have commenced development of the combined float-leach circuit, which is expected to start operation in the first half of 2018, bringing the oxide ore from the open-pit into production.

Mining

Total ore mined increased by 29% to 944 kt, following the commencement of open-pit mining, which contributed 225 kt. The average grade mined was 6.3 g/t, up 20% year-on-year, driven by higher grades in the open-pit.

Open-pit mining was slowed-down during the winter months. Additional metallurgical testing was conducted in order to try and combat the low carbon-in-pulp (CIP) recoveries, caused by intense preg-robbing in the near-surface ore. It will resume in Q1 2018.

Geological and technological mapping of oxidised and transition ores in zones 5 and 6 were carried out for a further estimation of ore reserves and planning of mining works (both open-pit and underground).

Processing

In 2017, ore processed at the flotation circuit decreased by 15% year-on-year to 644 Kt, as planned, with an average gold grade of 5.4 g/t (2016: 5.3 g/t). The recoveries were stable at 87.7%. The gold in concentrate produced decreased by 16% year-on-year and comprised 96 Koz, reflecting the lower volumes of ore processed at the circuit.

Ore processed at the leaching circuit was 67 Kt, with an average grade of 9.9 g/t contributing 11 Koz of gold produced. After low carbon-in-leach (CIL) recoveries in the first half of 2017 at the crown pillar project, additional and extensive metallurgical testing was undertaken. As a result, future oxide-ore processing will be through a combined float-leach circuit, with flotation removing the bulk of preg-robbing organic carbon. This circuit will commence operation in May 2018.

Total gold production at Mayskoye increased 7% year-on-year to 124 Koz. Production was solely from offtake sales to China as the capacity at Amursk POX was taken up by higher-grade and higher-margin third-party material.

Exploration

At Mayskoye, 610 Koz of gold were added to mineral resources following a 33 km drilling campaign in 2017. This brings total additional mineral resources for Mayskoye to 3.8 Moz of gold, up 19% year-on-year.

PRIORITIES FOR 2018

> Recommissioning of the upgraded flowsheet to achieve design recovery levels for oxidised ore from the open-pit.
> Maintaining safety, productivity and grade control underground.
> Accelerating resource-to-reserve conversion, both in the open-pit and underground.

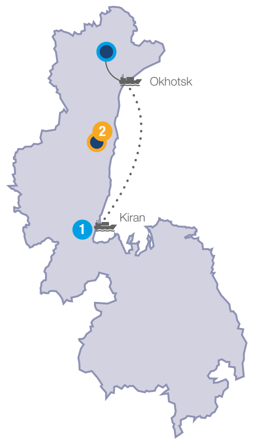
OPERATING ASSETS

OKHOTSK

DELIVERING FULL POTENTIAL FROM SVETLOYE HEAP LEACH

Mines
1 Avlayakan
2 Svetloye

Processing plants
Khakanja
Svetloye
Sea port



LOCATION
Khabarovsk Territory, Russia

MANAGING DIRECTOR
Konstantin Lemanov

EMPLOYEES
1,182 (including Svetloye)

MINING
Open-pit/underground

PROCESSING
600 Ktpa CIL and Merrill-Crowe circuits, 1,000 Ktpa HL at Svetloye

PRODUCTION START DATE
2003

LIFE OF MINE
2023

[1] Processing plants and the mines feeding them are marked in the same colour.

1,676 Kt
Total ore processed (including heap leach) (+59%)

US$159m
Adjusted EBITDA, incl. Svetloye (+79%)

217 Koz
GE production (+65%)

US$313/GEoz
Svetloye HL TCC (-25%)

Mining

The annual amount of ore mined at the Okhotsk hub decreased by 6% in 2017 to 1,383 Kt.

Svetloye became the major source of ore for processing: 1,246 Kt of ore were mined with gold grade in ore stacked of 4.4 g/t. Svetloye is a seasonal operation and shuts down for the winter, with operations resuming in Q2 2018.

Avlayakan underground mine operated at design capacity and produced 137 Kt of ore in 2017, down 3% compared with 2016, and with average grades in ore mined of 15.9 g/t gold and 147 g/t silver, almost flat year-on-year. Life-of-mine at Avlayakan was extended to the second half of 2018 on the back of positive down-dip exploration results.

Processing and production

At Okhotsk, gold production grew by an impressive 71% year-on-year to 196 Koz. Growth was largely driven by a significant contribution from the fully ramped-up Svetloye heap leach operation. Silver production for the year grew by 25% to 1.7 Moz as more third-party ore, with better metallurgical properties, was introduced to the feed at the Khakanja plant in 2017.

Svetloye heap leach operation was ramped-up to full capacity significantly contributing to the Group's strong performance. The amount of ore stacked was 1,054 Kt and GE production at the heap leach amounted to 106 Koz of gold produced, compared with 23 Koz in 2016, and is a first-class result just one year after launch. A study is being conducted on the feasibility of all-year-round leaching of the heap leaching pads, using a heating option.

At Khakanja CIP plant, processing volumes remained flat at 623 Kt, with feed mainly drawn from high-grade Avlayakan ore. Gold equivalent production during 2017 decreased by 3% as expected, since the historic reserves are being depleted and the plant is mainly focused on stockpile and third-party material processing.

Resources and exploration

48.0 km of exploration drilling has been completed in the Okhotsk region in 2017, a 70% increase compared with the previous year.

At Levoberezhny (35 km from Svetloye), in-fill drilling confirmed the continuity of mineralisation and the option of using heap leaching to extract gold.

12.8 km were drilled at Kundumi within the Central and Western ore zones resulted in a material increase in mineral resources. In 2018, the Company plans to undertake an additional 15 km of core drilling targeting both resource-to-reserve conversion and further resource growth.

At Khotorchan and Gyrbykan, multiple new veins have been discovered during the year. In 2018, Polymetal plans to complete resource definition drilling and start open-pit mining on previously discovered veins.

PRIORITIES FOR 2018

> Continued exploration at smaller high-grade satellite deposits, potentially providing feedstock at Khakanja.
> Evaluation of strategic options for the Khakanja plant and associated smaller deposits.
> Debottlenecking heap leach stacking capacity at Svetloye, given the significant expansion in ore reserves following the positive-grade reconciliation after in-fill drilling and positive exploration results on the flanks.
> Modernisation of the aspiration system in the ore preparation complex and the commissioning of the drying section at Svetloye.

VORO

SUSTAINING FREE CASH FLOW AND LOW CASH COSTS

Mines
1 Voro

Processing plants
Voro
+ Town

LOCATION
Sverdlovsk Region, Russia

MANAGING DIRECTOR
Boris Balykov

EMPLOYEES
874

MINING
Open-pit

PROCESSING
950 Ktpa CIP circuit, 1,000 Ktpa HL with CIC

PRODUCTION START DATE
2000 (heap leach), 2005 (CIP)

LIFE OF MINE
2028 (CIP)

118 Koz
Gold production (-7%)

US$383/GEoz
Total cash cost (2016: US$322/GE oz)

1,002 Kt
Ore processed at CIP (2016: 1,001 Kt)

63%
Adjusted EBITDA margin (2016: 72%)

Voro is one of the oldest assets in the portfolio, but continues to be a key cash-flow contributor with an attractive cash-cost profile. In 2017, Voro delivered stable operating performance in line with the mine plan.

Mining

Mining is currently focused on the primary ore, while oxide ore is nearing depletion. In 2017, total volumes of ore mined at Voro increased by 19% to 1,553 Kt. Average grades for primary and oxidised ore were down 16% and 24% year-on-year, respectively.

Optimisation of the cycle time of the mining fleet was undertaken, enabling an increase in productivity from dump trucks.

Processing and production

Total gold production at Voro decreased by 7% year-on-year to 118 Koz, primarily driven by anticipated lower head grades at both the heap leach and CIP operations. Voro continues to deliver a stable performance in line with the mine plan.

In 2017, the CIP plant delivered throughput of 1,002 Kt of ore processed, which remained relatively unchanged over the previous year, and produced 102 Koz of gold, down 8% year-on-year. The average gold grade in ore processed was 4.0 g/t, a 5% decrease from 2016. 2018 is expected to be the last year of heap leaching at Voro operations.

Resources and exploration

In 2017, the Company increased Voro's mineral resources by 28% to 1.0 Moz GE with the discovery of a new gold deposit at Pesherny (30 km from the CIP plant). An initial resource estimate comprised 449 Koz of gold at an average grade of 6.7 g/t. In 2018, we plan to continue exploring this highly promising property that may significantly extend the life-of-mine and halt production decline at Voro.

At Saum, mineral resource grew to reach 67.4 Kt of copper equivalent at an average grade of 2.9%. In 2018, we plan to complete the feasibility study for the property.

At Voro open-pit, exploration focused on the assessment of mineralisation below the ultimate pit floor. Mineral resources grew by 86 Koz of gold equivilant at 2.6 g/t. The results suggest feasibility of underground mining after open-pit mining is completed. Ore bodies are open along strike with drilling to continue in 2018.

PRIORITIES FOR 2018

> Stable production at the CIP plant in the mid-term.
> Reserve estimate for satellite deposits Saum and Tamunier in the first half of 2018.
> Feasibility study for the joint development of Saum, North Kaluga and Tamunier, with an upgrade of the existing CIP plant to include a flotation circuit.
> Continue regional exploration and evaluation of bolt-on M&A opportunities.

OPERATING ASSETS

VARVARA

QUICK RAMP-UP OF NEWLY ACQUIRED KOMAR DELIVERING EXCELLENT PERFORMANCE

Mines
1 Varvara
2 Komar
3 Maminskoye[1]
4 Tarutin

Processing plants
● Varvara
+ Town

[1] Maminskoye is located in the Sverdlovsk Region of Russia. The concept of the project assumes transportaion of ore mined by rail to Varnara and further processing to doré.

LOCATION
North-western Kazakhstan

MANAGING DIRECTOR
Igor Nikolishin

EMPLOYEES
1,129 (including Komar)

MINING
Open-pit

PROCESSING
Leaching for gold ore (3.0 Mtpa)/flotation for copper ore (1.0 Mtpa)

PRODUCTION START DATE
2007 (by Polymetal since 2009)

LIFE OF MINE
2032

130 Koz
GE production (+54%)

US$701/GE oz
Total cash cost (-10%)

3,279 Kt
Total ore processed (+5%)

Komar provided strong support to Varvara operations: almost 2 Mt of Komar ore was mined and railed to the Varvara hub. This resulted in a record GE production of 130 Koz, up 54% year-on-year.

Mining

In 2017, mining volumes were almost flat year-on-year at 3,243 Kt, while we experienced a slight decrease in float ore average grade to 1.0 g/t (down 15% compared with 2016) and 48% increase in Komar leach ore average grade to 1.4 (up 48% compared with 2016).

Processing and production

In 2017, Varvara produced a record 130 GE Koz, up 54% year-on-year. Growth was driven by increased processing volumes and substantially improved grades at both flotation and leaching circuits as more high-grade ore was delivered by rail from Komar, an operation acquired by Polymetal in August 2016 and quickly ramped-up to full productivity.

At the leaching circuit, 3,279 Kt was processed in 2017 (up 5% year-on-year) while the flotation circuit processed 389 Kt (up 5% year-on-year).

In an effort to further streamline Komar ore logistics, a new railway spur at Komar has been commissioned. It is adjacent to the open-pit and will enable further reductions in ore haulage costs.

In 2018, Polymetal aims to transport more than 2 Mt of Komar ore to Varvara by rail, a key element in plans to further increase production levels at the operation. The additional Komar ore will displace the lower-grade material from the Varvara deposit and, consequently, increase production and result in lower costs at the Varvara processing hub.

Resources and exploration

At Komar, 30 km of exploration drilling at the central and southern zones was completed in 2017, driving a significant increase in ore reserves of 524 Koz of gold (+49%). The upgraded estimate represents a significant increase over the previous estimate, up 60% in tonnage and 57% in gold content, further extending the Varvara hub mine life by three years to 2032. The reserve expansion, increased processing capacity and associated economies of scale have far outstripped our expectations at the time of the acquisition. In 2018, exploration activities are set to continue at the northern and south-eastern parts of the deposit.

12.1 km of drilling was completed at Elevator – a new prospect that is situated 8 km north-east of the Komar deposit. New thick ore bodies were discovered below the previously mined oxidized ore. Exploration will continue in 2018.

PRIORITIES FOR 2018

> Optimisation of the long-term mine plan for the hub as a whole with evaluation of strategic options for assets on the Russian side of the border (Tarutin, Maminskoye).

> Increase gold production with more than 2 Mt of ore railed from Komar open-pit mine to Varvara in 2018.

> Continued active presence on the market for third-party ore.

KAPAN

CONTINUED IMPROVEMENT AT OUR FIRST ARMENIAN OPERATION

Mines
1 Kapan
2 Lichkvaz

Processing plants
● Kapan
+ Town

LOCATION
Kapan province, Armenia

MANAGING DIRECTOR
Dmitry Ushkov

EMPLOYEES
1,053

MINING
Underground

PROCESSING
750 Ktpa flotation concentration followed by offtake

PRODUCTION START DATE
1950s (by Polymetal since 2016)

LIFE OF MINE
2023

50 Koz
GE production (2016: 26 Koz)

4.2 GE g/t
Ore reserves average grade

530 Kt
Ore processed (+81%)

692 GE Koz
Initial JORC-compliant reserve estimate

In 2017, Kapan delivered a strong operational performance driven by increased processing volumes and improved head grades on the back of ongoing enhancement measures to debottleneck the underground mine and improve recovery levels.

Mining

At Kapan mine, underground development grew by 78% year-on-year to 16.9 km and the amount of ore mined was 527 Kt compared with 287 Kt in 2016. Average GE grade in ore mined was 2.7 g/t (an increase of 7% year-on-year). In 2017, a comprehensive technical re-equipping of the mine and the renewal of mining fleet were carried out with already visible results in the increased underground mining productivity. The projects for the reconstruction of the mine ventilation system and construction of an underground water pumping station have been started. While the upgrade of the mining fleet was largely completed in 2017, the increase in productivity at the underground mine is taking longer to achieve than expected.

At Lichkvaz, preparatory activities for underground mining are currently underway and are aimed at widening the underground tunnels for consecutive underground and stope development later this year.

Processing and production

During 2017, we undertook measures to debottleneck the processing plant and improve recovery levels. This included the construction of an ore blending warehouse, the overhaul of the copper circuit crusher, vacuum filter and thickener, and the installation of a vibrating griddle at the central crushing section.

Ore processed was 530 Kt, up 81% year-on year. The recoveries increased from the previous year to 83.6% for gold and 83.0% for silver. GE production at Kapan comprised a record 50 Koz on the back of increased processing volumes and improved head grades.

Reserves and resources

At Kapan, Polymetal prepared an initial JORC-compliant reserve estimate as at 1 January 2018, which comprised 558 Koz GE at an average grade of 4.3 g/t. Additional mineral resources were estimated at 1,632 Koz GE at an average grade of 6.1 g/t.

At Lichkvaz (70 km from Kapan) an initial JORC-compliant reserve estimate was prepared by Polymetal and comprised 134 Koz GE at 3.9 g/t, while additional mineral resources amounted to 257 Koz GE at 5.0 g/t.

PRIORITIES FOR 2018

> Further improve measures aimed at debottlenecking the underground mine.

> Continue active exploration activities in the region.

> Production growth in 2018 driven by better utilisation of processing capacity.

OPERATING ASSETS

KYZYL

MAJOR MEDIUM-TERM GROWTH DRIVER FOR POLYMETAL

LOCATION
Oskemen region, Kazakhstan

MANAGING DIRECTOR
Yuri Ovchinnikov

EMPLOYEES
511

MINING
Open-pit followed by underground

PROCESSING
Kyzyl flotation plant (1.8 Mtpa), followed by POX or offtake

PRODUCTION START DATE
Q3 2018

LIFE OF MINE
2039

7.3 Moz
Gold reserves

7.7 g/t
Average reserve grade

22 years
Estimated life of mine (Bakyrchik)

33%
Internal rate of return

Kyzyl is one of the best development-stage gold projects in the world and is on track to produce its first concentrate in Q3 2018. It offers a perfect fit with Polymetal's core competencies: project development from scratch, open-pit mining, treating refractory materials in-house (through Amursk POX plant) and trading concentrates with offtakers.

Mining

At Kyzyl, stripping volumes increased significantly to 48.5 Mt, compared with 22.4 Mt in 2016. The first ore was mined from the open-pit ahead of schedule in January 2018.

Development

Construction activities are in line with the project schedule All external electrical infrastructures (substation, power lines, switchboxes) are fully operational. The tailings storage facility has been completed. At the ore preparation complex, the crusher, conveyor gallery and apron feeder are in place. Foundations for the mills and other processing equipment have been completed, together with the tunnel gallery leading from the crusher to the main concentrator building. At the processing facility, construction activities are now focused on the installation of smaller technological equipment. Work has started on electrical wiring, ventilation ducting and installation of process control equipment.

Kyzyl remains on track to produce the first concentrate in Q3 2018. There is strong demand for concentrate from multiple offtakers, with the first contract signed in Q1 2018. The commercial terms of the offtake agreement compare favorably with management's original expectations, with the percentage of payable gold in concentrate in line with the project feasibility study and also treatment charges better than those for Mayskoye concentrate.

Exploration

At Bakyrchik, 49 holes totalling 8.3 km were drilled at the eastern flank of the deposit with results indicating strong potential to increase open-pit reserves. In-fill drilling leading to an updated ore reserve estimate is planned for 2018.

PRIORITIES FOR 2018

- Further exploration of identified ore bodies, together with an ore reserve estimate.
- Commissioning of an accommodation camp, engineering networks and facilities, warehouse facilities and a heating and power complex in Q1 2018.
- Commissioning of the processing plant and production of the first concentrate in Q3 2018.

KYZYL – COMPLETION SCORECARD

	Permitting	Engineering	Contracting	Construction
Open pit	100%	100%	100%	100%
Processing plant	100%	100%	100%	85%
External infrastructure	100%	100%	100%	100%
Internal infrastructure	100%	100%	100%	95%
Tailings storage	100%	100%	100%	95%
Concentrate offtake contracts	100%	100%	100%	100%

GROWTH PROJECTS

NEZHDA[1]

A WORLD-CLASS DEPOSIT ADVANCING A PIPELINE OF GROWTH OPPORTUNITIES

Open-pittable reserves (JORC)[2]
2.0 Moz of GE at 4.0 g/t

Additional resources (JORC)[2]
8.9 Moz of GE at 5.0 g/t

Life of mine (open-pit)
11 years

Throughput
1,500 Ktpa

PRIORITIES FOR 2018

> Achieve resource-to-reserve conversion to include the southern flank of ore zone 1 and smaller mineralised zones.

> Long-lead equipment selection.

> Design documentation development.

> Pre-feasibility study and development decision in Q4 2018.

Nezhda, Polymetal's joint venture in Yakutia, is the fourth largest gold deposit in Russia by GKZ (statutory) reserves and has sizeable open-pittable reserves, with further resources targeted for underground operations.

Development

In July 2017, Polymetal secured an option to consolidate 100% in Nezhda, for the development of the high-grade refractory gold deposit.

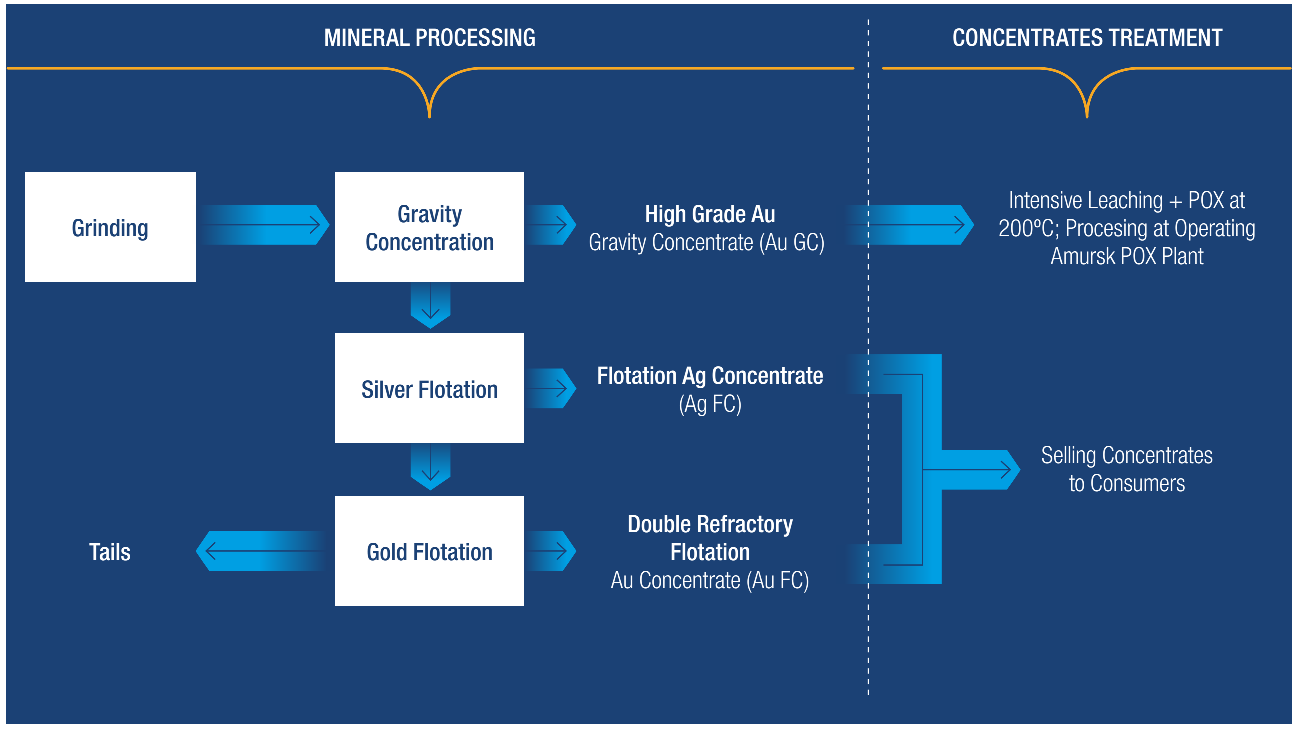
During the year, Polymetal undertook an extensive exploration campaign: 34.7 km of exploration drilling was completed. In November 2017, Polymetal reported the initial ore reserve estimate (JORC) for open-pit mining at ore zone 1, re-affirming the economic viability of the project and justifying the Company's approach of developing the asset by starting it up as an open-pit with a concentrator on-site, followed by concentrate offtake.

Open-pit ore reserves are estimated at 15.5 Mt of ore with an average GE grade of 4.0 g/t for 2.0 Moz of GE contained[3]. Additional mineral resources are estimated at 55.9 Mt of ore with an average GE grade of 5.0 g/t for 8.9 Moz of GE contained[4]. Nezhda is expected to benefit from low-capital intensity with robust project economics and has an excellent fit with our core capabilities.

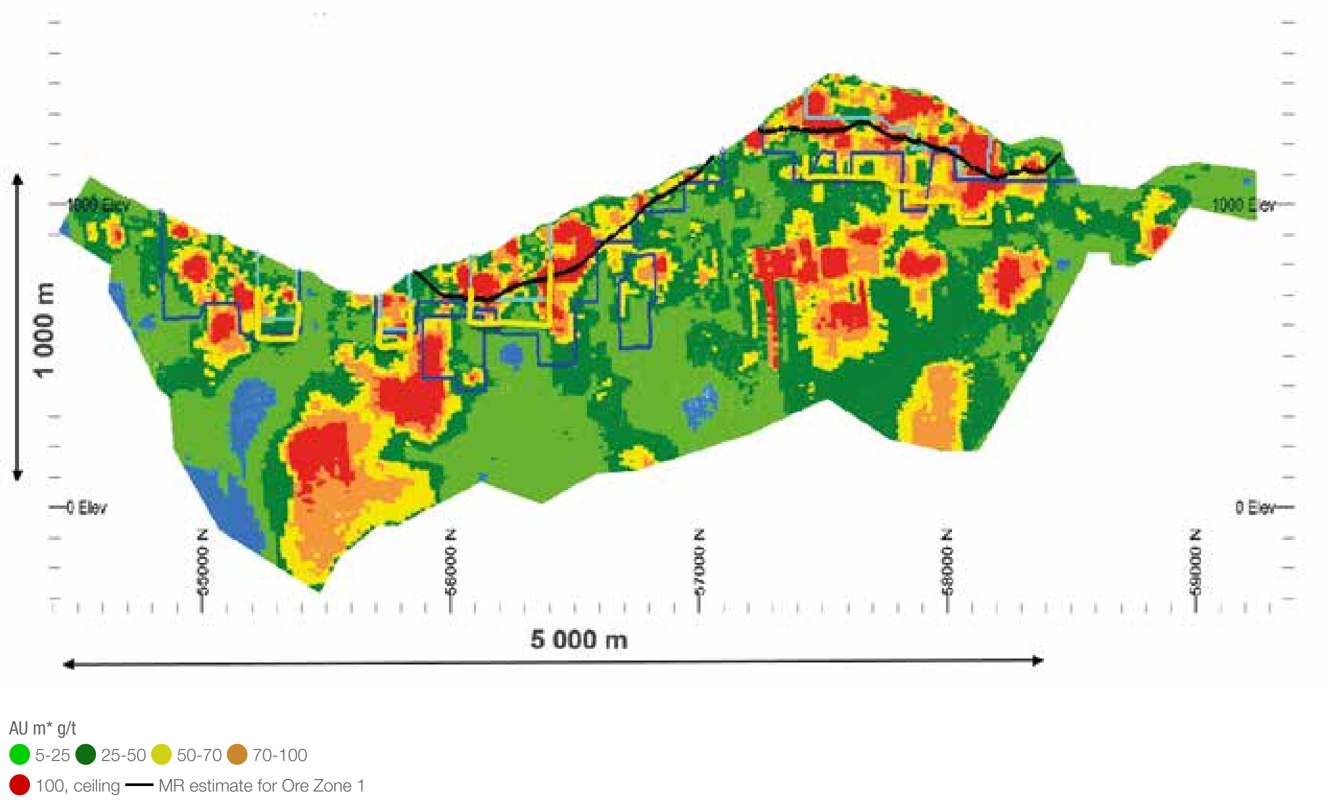
In 2018, Polymetal will focus on upgrading the open-pittable resources at the southern flank of ore zone 1 and producing the initial reserve estimate for underground mining at ore zone 56. The production start date is currently projected to start during the first half of 2022, subject to a positive investment-and-development decision in Q4 of 2018, after successful commencement of production at Kyzyl.

[1] Joint venture: Polymetal currently holds an 18% stake in the asset with an option to increase its stake to 100% in 2018.
[2] On a 100% basis.
[3] 350 Koz pro rata at Polymetal's current ownership of 17.7%.
[4] 1,576 Koz of GE pro rata at Polymetal's current ownership of 17.7%.

NEZHDA SIMPLIFIED FLOWSHEET



ORE ZONE 1: LONG SECTION



EXPLORATION / FURTHER GROWTH OPPORTUNITIES

PROGNOZ[1]

NEXT GENERATION OF ASSETS – THE LARGEST UNDEVELOPED PRIMARY SILVER DEPOSIT IN RUSSIA

Mineral resources
292 Moz of silver at 586 g/t

Expected production
20 Moz of silver per annum

Followed by underground mining method
Open-pit (5-8 years)

Expected throughput
~1 Mtpa

PRIORITIES FOR 2018

> Further upgrade of inferred resources into indicated resources(Main/South zones).

> 46 km of diamond drilling and extensive in-house metallurgical test work to increase inferred reserves at ore zones Quiet/Spring and flanks Swamp/Main.

> Updated mineral resources estimate and an external audit according to JORC.

The Prognoz project fits well with Polymetal's strategy and has the potential for a relatively low-capital and fast-development approach based on open-pit mining and conventional processing.

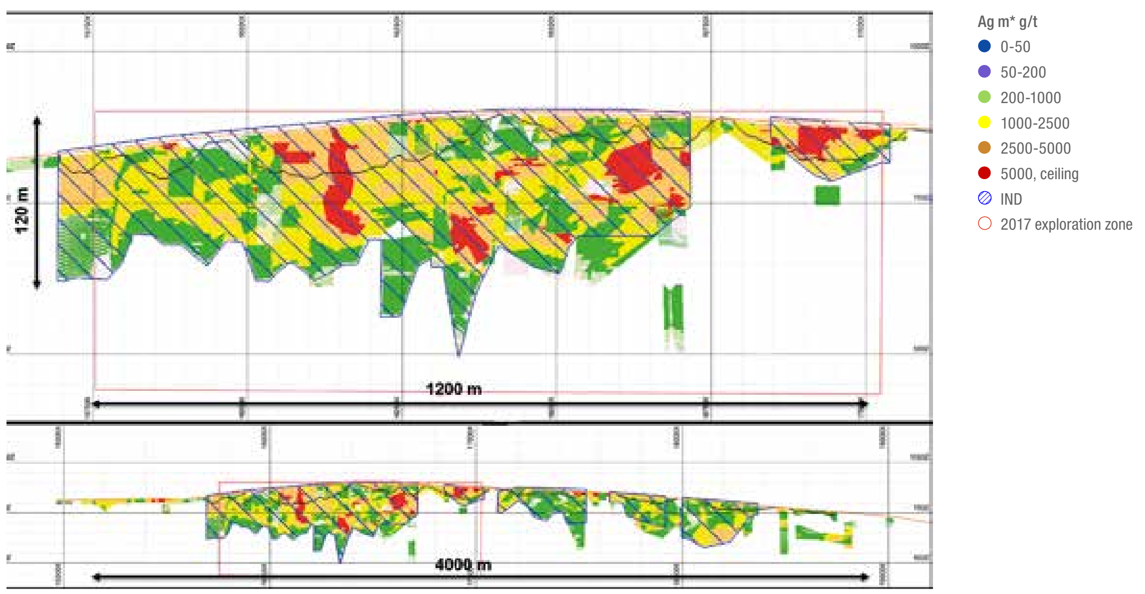
Development

Prognoz is the largest undeveloped primary silver deposit in Eurasia with an outstanding exploration upside (only 40% of known vein outcrop has been tested by drilling). Polymetal acquired a 5% indirect interest in Prognoz in January 2017, with new terms negotiated to consolidate a 45% stake in the property for a total consideration of US$72 million and a deferred consideration element, payable in Polymetal shares. The transaction is expected to close in the first half of 2018, subject to receipt of the required regulatory approvals.

Mineral resources were estimated by Micon in 2009 at 292 Moz at 586 g/t silver, 3% lead, with an additional mineralised potential of 7.9-18.1 Mt of ore at 469 g/t silver for 119-273 Moz of silver contained. During the year, Polymetal undertook 37.2 km of exploration drilling at the deposit to confirm the resources of Main and Swamp ore zones and established a basic remote-site infrastructure on the property. The results of the drilling campaign have largely confirmed the parameters of mineralisation at the deposit. In 2018, Polymetal intends to expand the scope of drilling at the property to include South, Quiet and Spring ore zones as well as trace Main and Swamp ore zones along strike and down dip.

[1] Joint venture: Polymetal currently holds a 5% stake in the asset with new terms negotiated to consolidate a 45% stake in the property. The transaction is expected to close in 1H 2018.

LONG SECTION OF MAIN ZONE



VIKSHA

OUR FIRST PGM ASSET IN AN EXCELLENT LOCATION

Combined precious metals mineral resources
213 Mt at 0.98 g/t

Total content
9.5 Moz PdEq

Conventional flotation processing to produce bulk copper-PGM sulphide concentrate + off-take processing
Open-pit

PRIORITIES FOR 2018

> Updated mineral resources estimate in Q3 2018.

> Proceeding with a further exploration programme of the Shargy area.

> Further upgrade of inferred resources into indicated resources.

> Start of the feasibility study development and reserves estimate.

Viksha is Polymetal's first platinum group metal (PGM) resource, and one of the largest open-pit PGM deposits in the world containing roughly 9.5 Moz of palladium equivalent.

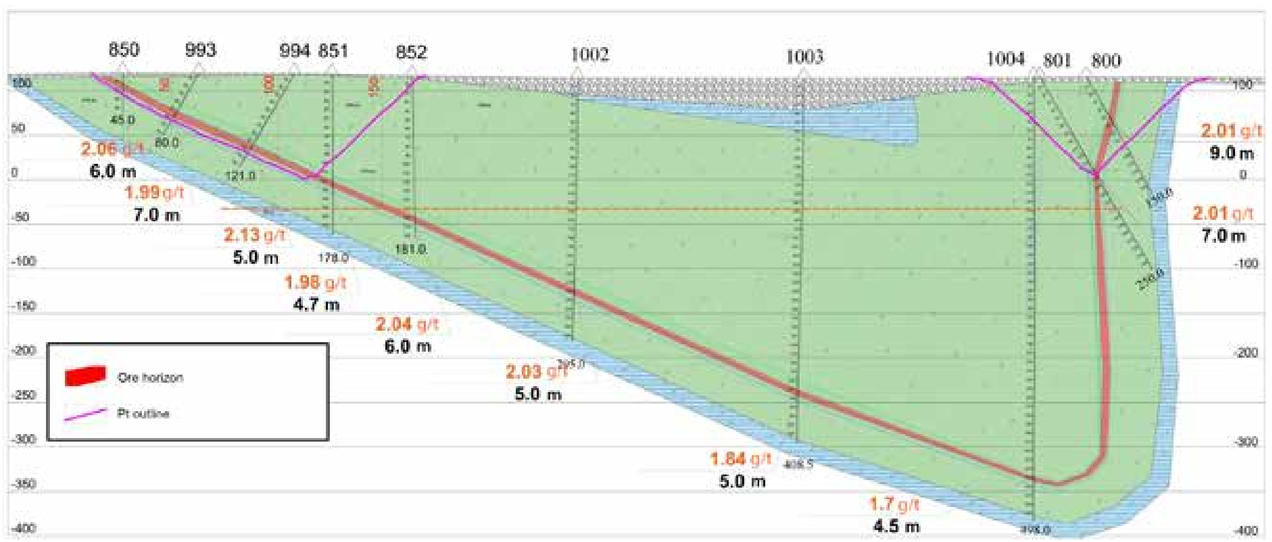
Development

Polymetal was granted the 20-year mining licence in 2016, which covers a project area of 47 km^2 and comprises three adjacent zones — Viksha, Kenti and Shargi — each containing platinum, palladium, gold and copper mineralisation. The depth of the mineralisation is just 150 m with an average ore body thickness of 7 m and a total length of 20 km along the surface.

In 2017, 39.6 km of exploration drilling was completed at the Viksha deposit in order to gain a better understanding of the geological controls and enable a future reserve estimate. An updated mineral resources estimate is expected in Q3 2018.

Pilot plant metallurgical tests are currently being carried out and will be completed in 2018. Polymetal intends to complete a feasibility study for an ore reserve estimate for Viksha by Q3 2019. Provided the development decision based on the feasibility study is positive, the asset could enter production in 2022.

CONSISTENT GRAM-METER DOWN DIP (PD EQ * ORE BODY WIDTH)



SUSTAINABILITY

"Our vision is to generate wealth through responsible mining and to have a positive impact on the countries and communities where we operate."

20 years of discovering

Over the last two decades, Polymetal has built thriving and responsible mining business. We attribute our success to our focus on what is right – conducting business while prioritising health and safety, minimising our environmental impact, treating our employees fairly, and supporting local communities and the economy.

We were delighted to have our work in 2017 recognised externally. We were ranked 1st among environmentally responsible metals and mining companies in Russia by the WWF and the UNDP. We were proud to be shortlisted in the British IR Magazine Awards for Best ESG Communications and to win the award for Best Technology at the MINEX conference for our environment-friendly underground electrical vehicles. In addition, we reaffirmed FTSE4Good memebership. Sustainalytics positioned Polymetal in the 93rd percentile as an outperformer in the industry, ranking us first among our peers and fourth globally out of the 44 mining companies included in the report.

20 years prioritising safety

Nothing is more important to us than the safety, health and well-being of our employees and their families. Our commitment is to have zero injuries. We regrettably failed in our care of duty in 2017 with two fatalities.

With the implementation of our Critical Risks Management System, we have seen a visible improvement in our health and safety performance, with a 21% reduction in LTIFR compared with 2016, and a decrease in the number of fatalities from four to two.

20 years protecting the environment

At every stage of the mining life cycle, we work to avoid, reduce or mitigate any negative environmental impacts. In 2017, we completed our energy study, with pilot projects on solar and wind sources to be launched in 2018. Our energy management system has been developed in accordance with ISO standards, and our climate change strategy and carbon management system is currently under development.

20 years valuing employees

Our people are our greatest and most valued asset, working with enormous commitment to execute our strategy. We focus on increasing diversity and equal opportunities for women, decreasing labour turnover and providing training and development for all employees. In 2017, collective bargaining agreements were extended at operating mines and we incorporated our Company's standards at newly acquired operations. Health initiatives, such as our HIV programmes, were also launched in the most exposed operations. 2018 is the 70th anniversary of the Declaration of Human Rights and we will mark this year with a widespread training programme on the importance of human rights.

20 years supporting local communities

Our vision is to generate wealth through responsible mining and to have a positive impact on the countries and communities where we operate. In 2017, we held inaugural annual meetings with local residents in our new regions of operation (Armenia and Yakutia). We signed four additional socio-economic community agreements in three new regions of operation. There was a significant increase in employee involvement in our corporate volunteering activities aimed at helping communities. We also implemented our Community Engagement Standards at all our operations and updated our Social investments and Donations Policy.

The next 20 years

Sustainability is a journey – we have made good progress, and are continuously looking at ways we can improve and grow our operations. In the years to come, we will continue to build a thriving and responsible business.

L.A. Homeniuk

Len Homeniuk
Chairman of the Safety and Sustainability Committee

SUSTAINABILITY HIGHLIGHTS 2017

> Over 100 social service and child-care institutions constructed, renovated and upgraded in host communities

> Stakeholder engagement improved: materiality assessment and personnel satisfaction studies conducted

> Empowering women: 50% of key future managers awarded at the Polymetal scientific conference are female

> Personnel turnover rate decreased to 5.4%

> Developed climate strategy and energy management system and started to use renewable energy

> LTIFR decreased by 21% and critical risk management system implemented
> 2 fatalities (2016: 4 fatalities)

> Top rating in environmental responsibility by WWF and UNDP

> Supply chain: new long-term partnerships and scoring system

> Improved corporate charity and volunteering

Our approach

We are deeply committed to sustainability and continuous improvement, which translates into safer working conditions for people, responsible environmental management, support for our local communities and growing economic value for our stakeholders. Our sustainability strategy is designed to meet the principles of the UN Global Compact, to which we signed up voluntarily in 2009. We comply with the Ten Principles relating to the environment, labour, human rights and anti-corruption, and participate in the UN Global Compact Network Russia.

Alongside our corporate values of dialogue, compliance, ethical conduct, fairness, stewardship and effectiveness, the Ten Principles help inform our sustainability policies. These are agreed by central management and implemented Group-wide, and we benchmark our performance against the most up-to-date regulatory requirements through regular monitoring and auditing.

Sustainability leadership

Ultimate responsibility for sustainability lies with our Board of Directors. Our Group CEO, Vitaly Nesis, oversees all local management decisions and processes, and sustainability performance reviews take place at Board meetings several times a year. The Board approves sustainability strategy initiatives and has final sign-off on our sustainability reports.

In 2015, we established our Safety and Sustainability Committee. This provides support to the Board by monitoring the Group's safety record, sustainability performance and ethical conduct. The Committee oversees the Company's overall approach to sustainability, developing and implementing short and long-term policies and standards. To address safety, the Committee has been working hard to implement major improvements to risk management procedures to achieve our goal of zero fatalities. The Committee measures the impact of our initiatives, and helps the Audit and Risk Committee identify, manage and mitigate sustainability risks.

Stakeholder engagement and materiality

It is important to understand our stakeholders' perspectives on sustainability issues. We regularly carry out a 'materiality assessment' in accordance with GRI Standards, engaging with all stakeholders, including governments, organisations and local communities, our employees, suppliers, contractors, investors and financial institutions. This enables us to prioritise key sustainability risks.

Our 2017 assessment showed that both internal and external stakeholders care most about economic performance. Occupational health and safety, and emissions, effluents and waste are considered high priorities for investors, suppliers and contractors. However, employees and local residents ranked these lower. Environmental management and engaging with local communities were ranked highly by local communities, investors, offtakers and employees, while suppliers consider these medium priority issues – suppliers' top concern is legal compliance. In 2018, we will evaluate the results of our assessment and ensure all priorities are being addressed effectively.

Delivering economic sustainability

We deliver long-term value for shareholders, employees, partners and other stakeholders. Our operations also have a major positive impact on the economy - we contribute to regional sustainable economic progress by paying national and local taxes, employing local people wherever possible, and finding local or regional suppliers to buy from. This helps to improve standards of living for residents, further boosts local economies, and minimises the environmental impact of our supply chain. We also make social investments, helping to improve people's livelihoods and strengthening our relationships with local communities.

In our supply chain management, we ensure that our procedures are transparent, conditions are competitive, partnerships are fair, goods and services are delivered on time, suppliers are reliable, and all parties are fully compliant with applicable regulations. We use a business-to-business e-procurement system, which enables us to expand our list of contractors and make our processes more transparent and safe. Wherever possible, we engage local and regional suppliers to help stimulate regional and national supply chains and economies.

OUR PERFORMANCE

SUSTAINABILITY GOALS	2017 OUTCOMES
GOVERNANCE	
Recognition	• Headed rankings of environmentally responsible metals and mining companies by WWF and UNDP • Achieved higher scores from Sustainalytics, MSCI and Robecosam (Dow Jones Sustainability Index) • Reaffirmed as a FTSE4Good and Euronext Vigeo member
Ensure high standards of corporate governance and sustainable development	• Conducted comprehensive materiality assessment together with our stakeholders • Prepared first report for ESAP progress at Kyzyl for EBRD in compliance with IFC requirements • Intensified our anti-corruption training, increasing total number of people trained and number of seminars
ENVIRONMENT	
Reduce our environmental footprint	• Updated our Environmental Management System in compliance with updated version of ISO 14001:2015 and prepared for compliance audit in 2018 • Developed our Climate Strategy 2020 and carbon management programmes • Implemented Energy Management System designed in compliance with ISO • Developed Mine Closure Standard and Tailing Management System with implementation in 2018
EMPLOYEES	
Embed robust safety procedures and safeguard employee well-being	• Completed implementing Critical Risks Management System, safeguarding employee well-being • Continued Group recertification of safety system in compliance with OHSAS 18001 • Equipped our vehicles and mining fleet with safety tools and devices • Allocated responsibilities for safety performance to relevant employees and linked remuneration to it
Build a motivated, loyal and capable workforce	• Marginally decreased staff turnover rate from 5.5% to 5.4% • Developed new training programmes, procedures and courses; invested US$1,474 thousand in professional training • Extended collective bargaining agreement at Voro • Increased budget for employee financial aid in 2017 twofold
COMMUNITIES	
Maintain strong links and relationships in the regions where we operate	• Started dialogue with communities living close to our new operations and signed 4 cooperation agreements with them, in addition to the 26 active agreements currently in place • Invested US$11.7 million in social support and territorial development programmes; provided assistance to over 100 social care institutions and facilities (schools, kindergartens, health centres, sports and cultural facilities) • Supported and promoted charity campaigns together with our 1,000 employees, aimed at helping vulnerable groups; provided targeted assistance to over 1,000 people • Increased corporate volunteering, with 54% of personnel willing to participate in events
ECONOMIC	
Ensure financial stability and shareholder returns	• Generated a healthy free cash flow of US$143 million; coupled with a strong balance sheet this translated into cash returns for our investors
Maintain excellent working relationships with suppliers	• Switched to long-term partnerships by using long-term contracts with suppliers selected in transparent and open tenders, including local suppliers • Developed scorecards for supplier assessments to make selection process more targeted and efficient
Pursue further growth opportunities	• Secured an option to consolidate 100% in Nezhda, its joint venture in Yakutia (Russia) for development of high-grade refractory gold deposit • Acquired 5% share of Prognoz, the largest undeveloped primary silver deposit in Russia • Acquired Primorskoye mine

PRIORITISING HEALTH AND SAFETY

We work hard to create a 'zero harm' mindset and culture. This means every employee taking personal responsibility not only for their own safety, but also for that of the people around them. We continually promote safety behaviours to ensure all our people and contractors work in a safe environment.

We comply fully with health and safety (H&S) legislation wherever we operate, and strive to meet all relevant international requirements. We communicate our Health and Safety Policy (available at www.polymetalinternational.com) to our employees and stakeholders through information boards, our internal newspaper and weekly Safety Day meetings. Every year, we work hard to ensure that our compliance with external certification OHSAS 18001 is re-affirmed for our Occupational Health and Safety Management System (OHSMS).

Our OHSMS guides us in detecting, assessing and mitigating risks, safeguarding employee health and workplace safety, and making sure that equipment, buildings and other structures are used safely. It also ensures that supervision measures are carefully controlled and that we conduct internal audits effectively.

Identifying risk management focus areas

Each year, we identify and assess risks across the Group and create risk maps for all our working processes and locations. We then develop detailed programmes to help us reduce these risks.

We recognise risks associated with each of our sites – in Russia, Kazakhstan and Armenia. Individual units across our production facilities, plants and mines which have been classified as 'hazardous' are all fully insured. Our primary focus is on reducing the level of the most significant risks at our underground operations. We carry out an annual qualitative hazardous risk assessment, and inform employees of the results through a range of communication channels.

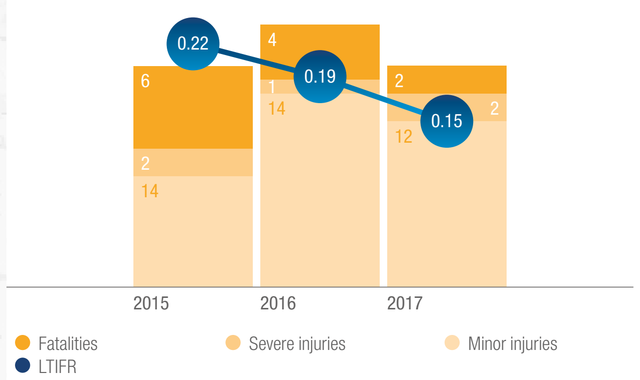
In 2017, we implemented our new Critical Risks Management (CRM) system, identifying critical risks for 2018. While the greatest hazards at our sites are from falling rock, road transportation accidents and falling (slipping), we have seen reduced exposure in the past year from these categories. We have upgraded the risk of fire to 'critical'; controlling measures for flammable materials is a particular challenge.

To reduce the potential impact of critical risks at all our subsidiaries, our CRM includes a health and safety action plan for all critical risks. For each risk, we have identified five main directions of impact and at least two preventative actions for each direction of impact.

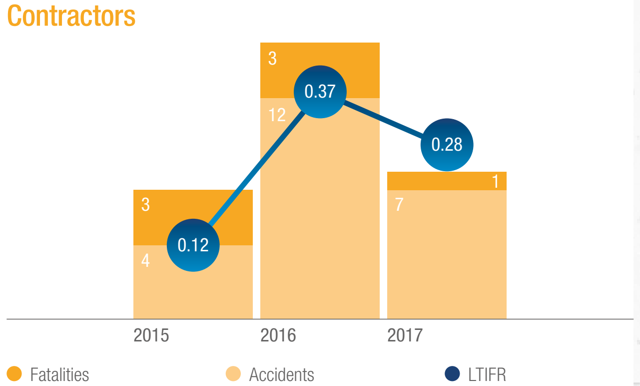
We follow a Shift Risk Assessment (SRA) model to raise employee awareness of workplace dangers, manage risks promptly and control the accuracy of our risk assessments. We implement the SRA most rigorously in hazardous operational areas, for example plant and power supply, automobile transport and mines.

Health and safety performance

Company



Contractors



Workplace accidents

Even when complying with the most stringent international standards and regulations as well as our safety management systems, unfortunately accidents can still happen. In recent years, the number of our underground mining operations has increased, with more complex and challenging geomechanical conditions. Despite more employees working in these conditions, and the increased number of production sites, we are encouraged that our Lost Time Injury Frequency Rate (LTIFR) has declined from 0.19 to 0.15. While we are also encouraged that the overall number of fatalities in our operations has reduced by 50% in the past year, any fatality at Polymetal is one too many.

We are deeply concerned with the loss of two colleagues in 2017: one in a laboratory fire at Varvara, caused by a concentration of flammable substances, and the other from fatal injuries incurred from a rock fall during an inspection of underground mine at Omolon operation. We pay tribute to these colleagues' hard work and dedication, and offer our condolences to their families and friends. We will continue to support their families financially and, most importantly, will do everything possible to return to our previous record of zero fatalities across all our operations.

As a response, we have reviewed our internal safety guidelines and procedures regarding chemicals storage and checked our electrical equipment to ensure no further faults. We are helping our employees to better identify risks and effectively prevent any incidents in the future.

In 2017, there were also 14 non-fatal accidents in total (2016:15) across the Group. Most of these injuries occurred at sites where our CRM system had not been fully implemented and this is now an urgent priority. Our goal is for a zero-harm work culture: we will implement additional measures and devote significant resources to do all we can to prevent future accidents.

Analysis and response

To help us understand any weaknesses in our safety performance, we always investigate and analyse all workplace accidents. We apply the '5 Whys?' principle to internal investigations, which we undertake in addition to investigations by state authorities. This process involves evaluating all possible health and safety risks – from technological and technical liabilities to employees' psychological and emotional influences.

After thorough research and analysis, we draw comprehensive conclusions and implement measures to help prevent re-occurrence. We inform all employees and contractors of our findings and incorporate new measures into our health and safety action plan. In addition, we implement all recommendations by the state authorities. By implementing our health and safety action plan, we have been able to successfully transfer to our new CRM system. Overall, this new system has reduced injury risk and we hope will prevent repeat of past accidents in the future.

Engaging and training employees on safety

Training and engaging employees and contractors is essential to achieving our zero-harm goal. Polymetal's Human Resources Management System sets out our procedures for recruitment and assigning employees with specific skills, as well as for providing training.

We clarify competence requirements for each relevant job description and heads of business units identify training needs. We provide training in occupational health, and industrial, electric and fire safety. We also provide refresher and training for specific purposes.

In 2017, our employees and contractors attended safety refresher courses and some of those involved in dangerous works underwent mandatory safety training. To motivate employees about the importance of safety, we hold contests and reward departments that achieve zero occurrences and incidents. We also publish our 'safety barometer' in our corporate newspaper and on information desks and portals.

Occupational diseases

Three cases of occupational diseases and health difficulties were recorded in 2017 (two cases of silicosis and one of hearing loss) at our Dukat mine. Both employees had more than 15 years' experience working in hazardous conditions, including chemicals, cold climate, noise, vibration, dust and hard physical work. Following these cases, one changed his role at Polymetal, and the other left the Company.

PROTECTING OUR ENVIRONMENT

Central to running a sustainable business is being mindful of environmental responsibility. Over the past two decades, our systems have been designed to protect both human health and the environment. We ensure that environmental aspects are taken into consideration when designing, constructing and operating our mines and processing facilities.

As with all mining companies, our work involves a number of environmental risks. Our Environmental Policy focuses on continuous improvement, risk reduction, best practice and compliance. It also covers managing key environmental issues, including incident and emergency control and the use of environmentally-friendly materials.

Our Group-wide Environmental Management System (EMS) helps us manage these risks, driving resource and energy efficiency across the business. In 2017, we updated our EMS to the requirements of international standard ISO 14001:2015. All our production sites are certified for compliance with ISO 14001:2006, and a certification audit of our updated system (since the 2015 version) will be held in 2018.

Water management

Efficient water management is a key concern among our stakeholders and vital to us as a business. We use water for industrial use, drinking and irrigation, and it is a major component in ore processing. Fortunately, our production sites are located in regions where there is no water shortage. Despite this, we aim to re-use as much water as possible and in 2017 we recycled 83% of process water (2016: 84%). We also work with local governments and stakeholders to protect water security in our host communities, often providing water and infrastructure through our operations.

Reducing our materials and waste

We are firmly committed to the responsible management of waste materials. Our audit teams carry out regular internal checks and assess our compliance with national and regional standards, and government agencies conduct regular environmental performance spot-checks at our facilities.

Overburden and tailings are the most significant waste streams associated with our operations, accounting for more than 99% of the total waste volume. During 2017, we mined 12,589 Kt of ore and 114 Mt of waste, processed 13,037 Kt of ore and generated 128 Mt of waste. (While more than in 2016, when we generated 74 Mt of waste, the volume of mining have increased). We now operate eight tailings facilities; there were no significant or major environmental accidents involving tailings facilities at our operations last year.

Cyanide and hazardous waste management

Our production methods involve several harmful consumables. Among these, the largest is cyanide, which generates hazardous waste during the recovery of gold from the ore we process. We are rigorous in our handling, management and monitoring of cyanide due to its hazardous potential.

In 2016, we became signatories to the International Cyanide Management Code, followed by the certification of Amursk POX. At Polymetal, we used 8.9 thousand tonnes of cyanide in 2017.

Energy and carbon management

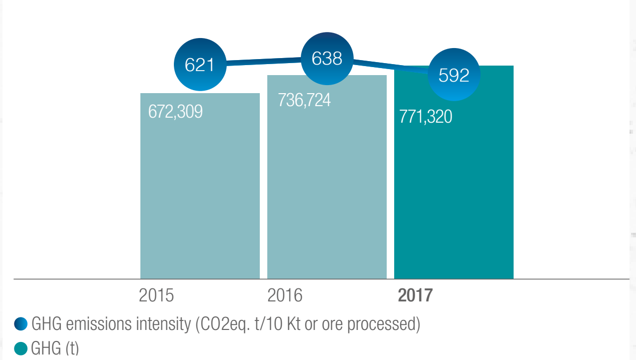
The main sources of energy consumed at our sites include electricity, diesel fuel, natural gas and coal. Diesel fuel makes up a significant proportion of our total energy consumption, due to the remoteness of our sites and no proximity to industrial centres and centralised power supply systems.

One of our priorities is to increase our energy efficiency. Our new Energy Management System has been developed in compliance with ISO-50001 and will be implemented across the Company in 2018. Following a feasibility study into alternative energy sources in 2017, approval has been given for a solar power plant at Svetloye and a wind farm at the seaport of Unchi, with the aim of launching both during 2018.

Greenhouse gas emissions

Heat and electricity from our diesel generators, as well as our mining fleet operations, produce greenhouse gas (GHG) emissions. The burning of natural gas and coal and the use of landfill also contribute to our GHG footprint. We measure and monitor our CO2 emissions using established international methodology – our full Carbon Management Policy is on our website. In 2017, we introduced a number of measures to reduce GHG emissions, including converting all lighting to LED, and equipping diesel-powered generators with a heat recovery system. We also began to develop our Climate Management System.

GHG Emissions
(t)



Protecting biodiversity

We are committed to treading lightly in the regions where we operate and work hard to minimise our impact on local biodiversity. We do not operate in or adjacent to protected or vulnerable areas or upon land that has particular value – natural, historical or cultural – for Indigenous Minorities of the North (IMN). Due to the extreme northern location of most of our sites, the surrounding territory is low in conservational value. However, some sites are situated in the Russia's Far East, which provides natural habitats for various rare and threatened or vulnerable plant and animal species.

All our employees are involved in our biodiversity conservation programme and help with biodiversity monitoring. In addition, we insist that all site staff, including contractors, take part in environmental, health and safety awareness training to ensure that they understand their responsibilities. Our biodiversity assessment in 2017 concluded that with the exception of one endangered species, the Poiny flower identified at Kapan, there was no significant impact on biodiversity in or around our production sites.

Planning for mine closures and rehabilitation

As all sites will eventually deplete their mineral resource and ore reserves, it is essential that we plan responsibly for the end of each mine's operational life. Our long-term remediation obligations include fulfilling decommissioning and restoration liabilities and covering suspension or abandonment costs in compliance with national regulations and legislation. In 2017, we started developing our Corporate Mine Closure Standard, which will be implemented in 2018.

VALUING OUR PEOPLE

We want to attract the best people and ensure they are motivated to stay. So we strive to create a fair and inclusive environment, pay competitive salaries that benchmark well within the industry, offer equal terms of employment and reward performance. Through training, and skills and leadership development, we are creating our future business leaders.

We are fully compliant with national and international standards relating to staff and management, ensuring that our working environment is based on fairness and respect.

We expect all employees to comply with our Company Code of Conduct, which covers equality, health and safety, government and community relations, environmental protection, transparency, competition and data protection. It sets out our zero-tolerance approach to drug use, conflicts of interest, bribery and bullying. In accordance with our Human Rights Policy, and as signatories to the UN Global Compact, we are also committed to a zero-tolerance approach to human trafficking and modern slavery.

Anti-corruption

We work hard to raise awareness of bribery and corruption and its potential impact on our business. Across the Group, we have implemented measures and training to help prevent corruption and fraud among our employees, contractors and suppliers.

During the year, the instances of corruption identified within our business were limited to minor fraud, with no material impact on our operations or financial position. No court cases relating to corruption were brought against the Company or any of our employees.

Equal opportunities and diversity

We are committed to equal opportunities and terms of employment. We recruit people on merit and do not discriminate on any grounds, including gender, race, skin colour, religion, nationality, social origin and political opinions. In 2017, no reported cases of discrimination were made within the Group.

We ensure equality in pay and provide equal levels of remuneration at positions with the same competence requirements for both male and female employees. We actively promote the inclusion of women in our workforce and leadership teams. At Polymetal, women are well represented in senior positions, particularly in administrative, social and communication professions, although the number is much lower in production, construction and geology. In 2017, women occupied 24% of our management roles, and represented 22% of our total workforce (see the diagram below). Women make up 27% of our Board.

Proportion of male to female qualified personnel

Female		Male
23%	Total workforce	78%
42%	Mid-level management[1]	76%
24%	Qualified personnel	58%
12%	Workers	88%

1 **Mid-level management** includes employees who hold positions as heads of companies or business units: directors, chiefs of divisions, managers, experts or supervisors etc.; chief specialists, for example, chief accountant, chief dispatcher, chief engineer, chief mechanic, chief metallurgist, chief geologist; and deputies to these positions.

Qualified personnel are employees who are engaged in engineering and technical, economic and other such positions. In particular accountants, geologists, dispatchers, engineers, inspectors, mechanics, quantity surveyors, editors, economists, energy specialists, legal advisors etc., and assistants to these positions. It also covers office workers in accounting and control and maintenance positions, who are not engaged in manual labour, including clerks, concierge staff, controllers, secretaries, and so on.

Workers include personnel who are directly engaged in the process of value creation, as well as those engaged in repair, moving goods, transporting passengers, providing material services.

Fair employee relations

We have an excellent track record in regulating employee relations based on equality, consideration of mutual interests, strict compliance with local social and labour regulations, and constructive dialogue between partners on all social and labour issues. We support our employees' rights to freedom of association and collective agreements. In 2017, 89% of all our employees worldwide and 100% of personnel at our operating sites in Russia, Armenia and Kazakhstan were covered by collective bargaining agreements.

All issues raised by employees through our internal communication systems are considered and investigated promptly. In 2017, we received 1,001 queries via our various communication channels. The results of our employee survey show that 76% of employees are satisfied with our feedback system, and that meeting with the Company's management is considered the most effective.

Headcount and turnover

At the end of 2017, we employed 11,919 people (2016: 11,261). The majority of our people work on a 'fly-in/fly-out' basis rather than permanent relocations, because of the demanding nature of the work and our remote site locations.

Over the last seven years, we have been steadily reducing our average employee turnover rate (including fly-in/fly-out operations). In 2011, this rate was 19.6%, and in 2017, the rate was just 5.4%. This achievement is partly attributable to a difficult macroeconomic environment, but also to our efforts to promote internal employee mobility, training and development, and favourable working conditions.

Investment in training and development

Training and development are critical to improving skills, keeping employees motivated and ensuring the future success of the Company. We invest in Group-wide training and development, as well as our Talent Pool to help develop the next generation of skilled managers. In 2017, we invested US$1,474 thousand in professional training across the business – 70% more than in 2016.

Our local stakeholders are key to our business success. We do everything we can to ensure that our work does not negatively impact our local communities, and that in fact we have a positive impact on them.

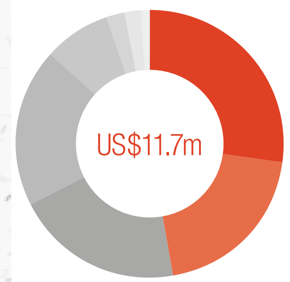
Our corporate standards and policies for community relations have been developed in line with international best practice and the conventions of the UN Declaration on the Rights of Indigenous Peoples and the UN Global Compact.

Community engagement

Our dedicated teams oversee our community investment and engagement programmes. We communicate about our activities through our Community Engagement System (CES) and encourage local stakeholders to give us their feedback. In 2017, we held 37 meetings (2016: 32), public gatherings and hearings for local community members and IMN. We also organised 20 site visits (2016: 15) for members of the public and community representatives.

Each time we invest in a new mining site or project, we assess the social and economic risks and impacts that our activities may have at local and regional level, We develop long-term strategies and engage with local communities, institutions, authorities and organisations to ensure we deliver maximum value to local people. In 2017, we began a dialogue with the community of the Sakha Republic (Yakutia), our newest region of operation.

Social investments in 2017
(%)



Sport	27
Education	20
Infrastructure	20
Healthcare	19
Culture	8
IMN	2
Charity	2
Environmental awareness	1

Assessing our impact

We conduct community polls and hold annual performance review meetings with stakeholders to evaluate the social and economic performance of our projects. This provides communities with the opportunity to participate directly in the development and monitoring of our social programmes – and helps us respond flexibly to changing situations. In 2017, we conducted polls in eleven districts and discussed various issues involving 726 people with our assessments showing no negative impacts from our operations.

Positive impacts included tax payments, support of infrastructure and auxiliary industries, environmental protection and ecological projects, regional population increase due to industrial growth, local employment opportunities, and social investment and community support. During 2017, we constructed or upgraded 100 socially significant institutions (2016: 50), including kindergartens, schools, health centres, and sport and culture centres in host communities in new and remote areas.

Our commitment to social investment

We discuss community needs and decide investment priorities with local stakeholders. In 2017, we invested more than US$11.7 million in local communities; our investment over the last five years exceeded US$30 million. We focus on projects involving sport, healthcare and education, infrastructure, culture and creative potential, Indigenous Minorities of the North (IMN) and environmental protection. We made charitable donations worth US$187,243 as well as 'in-kind' donations, including humanitarian aid to reindeer herders (food, fuel and medicines); delivery of food and medicine to remote communities and IMN; and construction and maintenance of roads in remote areas.

FINANCIAL REVIEW

"I am pleased to report robust earnings for the year. The Group continued to deliver positive free cash flow and generate meaningful cash returns to our shareholders."

Financial highlights

- In 2017, **revenue increased by 15%** over 2016 to US$1,815 million, primarily driven by gold equivalent (GE) production growth of 13%. Gold sales were 1,090 Koz, up 24% year-on-year, while silver sales were down 14% to 26.5 Moz, in line with production volume dynamics. Average realised gold and silver prices remained largely unchanged from 2016 at US$1,247/oz and US$16.1/oz, respectively.
- **Group Total cash costs[1] (TCC) were US$658/GE oz** for the year, up 15% from 2016 levels and at the lower end of the Company's updated guidance of US$650-675/GE oz. The increase in TCC was predominantly driven by the strengthening of the Russian Rouble (by 15% from an average rate of 67.1 RUB/USD in 2016 to 58.3 RUB/USD in 2017) on the back of the recent oil-price rally and stabilising macroeconomic conditions in Russia. **All-in sustaining cash costs[1] (AISC) amounted to US$893/GE oz**, also within the Company's updated guidance, an increase of 15% year-on-year, driven mostly by the same factors, as well as significantly increased exploration spending across the portfolio.
- **Adjusted EBITDA[1] was US$745 million**, down 2% compared with 2016, as increased costs incurred due to a stronger Russian Rouble largely offset the production growth. The Adjusted EBITDA margin was at 41% compared with 48% in 2016.
- **Net earnings[2] were US$354 million** versus US$395 million in the prior year, reflecting the decrease in EBITDA and the impact of foreign exchange gains on 2016 earnings. **Underlying net earnings[1] were US$376 million** (2016: US$382 million).
- **Capital expenditure came in at US$383 million[3]**, up 41% compared with 2016 due to accelerated pre-stripping and construction at Kyzyl, as well as an increased spend on brownfield exploration across the operating assets portfolio. The Group is on track with the commissioning of Kyzyl and the ramp-up of the debottlenecked POX plant in the second half of 2018.
- Net debt[1] increased to US$1,420 million during the period (31 December 2016: US$1,330 million), representing a Net debt/Adjusted EBITDA ratio of 1.91x. Despite intensive construction activities at Kyzyl in the course of 2017, the Company continued to generate meaningful **free cash flow[1] that amounted to US$143 million** (2016: US$257 million), while maintaining a stable net cash operating inflow of US$533 million (2016: US$530 million).
- **A final dividend of US$0.30 per share (approximately US$129 million),** representing 50% of the Group's underlying net earnings for the second half of 2017, has been proposed by the Board in accordance with the revised dividend policy and in compliance with the hard ceiling of Net debt/Adjusted EBITDA ratio below 2.5x. This will bring the total dividend declared for the period to US$189 million.

[1] The financial performance reported by the Group contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). For more information on the APMs used by the Group, including justification for their use, please refer to the 'Alternative performance measures' section on page 168-169. The definition and calculation of non-IFRS APMs used in this report, including Adjusted EBITDA, Total cash costs, All-in sustaining cash costs, Underlying net earnings, Net debt and Free cash flow are explained in this section.

[2] Profit for the financial period.

[3] On a cash basis, representing cash outflow on purchases of property, plant and equipment in the statement of consolidated cash flows. Total capital expenditure including loans advanced on capital spending at Nezhda and Prognoz joint ventures comprised US$435 million.

Financial highlights[4]

	2017	2016	Change
Revenue, US$m	1,815	1,583	+15%
Total cash cost, US$/GE oz	658	570	+15%
All-in sustaining cash cost, US$/GE oz	893	776	+15%
Adjusted EBITDA, US$m	745	759	-2%
Average realised gold price, US$/oz	1,247	1,216	+3%
Average realised silver price, US$/oz	16.1	16.3	-1%
Net earnings, US$m	354	395	-10%
Underlying net earnings, US$m	376	382	-1%
Return on Assets, %	18%	26%	-8%
Return on Equity (underlying), %	16%	18%	-2%
Basic EPS, US$/share	0.82	0.93	-12%
Underlying EPS, US$/share	0.88	0.90	-3%
Dividend declared during the period, US$/share[5]	0.32	0.37	-14%
Dividend proposed for the period, US$/share[6]	0.44	0.42	+5%
Net debt, US$m	1,420	1,330	+7%
Net debt/Adjusted EBITDA	1.91	1.75	+9%
Net operating cash flow, US$m	533	530	+1%
Capital expenditure, US$m	383	271	+41%
Free cash flow[7], US$m	143	257	-44%

[4] Totals may not correspond to the sum of the separate figures due to rounding. % changes can be different from zero even when absolute amounts are unchanged because of rounding. Likewise, % changes can be equal to zero when absolute amounts differ due to the same reason. This note applies to all tables in this section.

[5] FY 2017: final dividend for FY 2016 declared in May 2017 and interim dividend for the 1H 2017 declared in September 2017. FY 2016: final dividend for FY 2015 declared in May 2016, interim dividend for the 1H 2016 declared in September 2016, and special dividend declared in December 2016.

[6] FY 2017: interim and final dividend for FY2017. FY 2016: interim, final and special dividend for FY2016.

[7] Net cash flows from operating activities less cash flows used in investing activities excluding acquisition costs in business combinations and investments in associates and joint ventures.

Market summary

Please see the market overview on pages 20-21.

Foreign exchange

The Group's revenues and the majority of its borrowings are denominated in US Dollars, while the majority of the Group's operating costs are denominated in Russian Roubles. As a result, changes in exchange rates affect its financial results and performance.

For the Russian economy as a whole, 2017 proved to be a year of moderate improvement as oil continued the positive price momentum it gained in 2016, finishing the year at US$60 per barrel. At the same time, the Russian Rouble appreciated 15% year-on-year from an average of 67.1 RUB/USD in 2016 to 58.3 RUB/USD in 2017, while the spot rate as at 31 December 2017 appreciated by 5% to 57.6 RUB/USD compared with 31 December 2016. However, this trend had a negative impact on the mining sector, resulting in increased Dollar value of the Group's Rouble-denominated operating costs and lower Adjusted EBITDA margins in the reported period.

The economics of Kazakh gold mining operations were also impacted by a moderate strengthening of the Kazakh Tenge (up 5% year-on-year, from 342 KZT/USD in 2016 to 326 KZT/USD in 2017). The Armenian Dram remains the most stable currency in the Former Soviet Union region with an average exchange rate of 484 AMD/USD in 2017 (2016: 480 AMD/USD).

Revenue

Sales volumes

		2017	2016	Change
Gold	Koz	1,090	880	+24%
Silver	Moz	26.5	30.7	-14%
Copper	Kt	2.6	1.63	+57%
Zinc	Kt	4.7	2.80	+67%
Gold equivalent sold[8]	**Koz**	**1,456**	**1,301**	**+12%**

[8] Based on actual realised prices.

Sales by metal

(US$m unless otherwise stated)		2017	2016	Change	Volume variance US$m	Price variance US$m
Gold		**1,359**	**1,070**	**+27%**	**256**	**33**
Average realised price	US$/oz	1,247	1,216	+3%		
Average LBMA closing price	US$/oz	1,258	1,250	+1%		
Share of revenues	%	75%	68%			
Silver		**426**	**500**	**-15%**	**(68)**	**(6)**
Average realised price	US$/oz	16.1	16.3	-1%		
Average LBMA closing price	US$/oz	17.0	17.1	-1%		
Share of revenues	%	23%	32%			
Other metals		**30**	**13**	**+131%**		
Share of revenues	%	2%	1%			
Total revenue		**1,815**	**1,583**	**+15%**	**188**	**44**

In 2017, revenues grew by 15% over 2016 to US$1,815 million, primarily driven by gold equivalent production growth of 13%. The average realised gold and silver prices were largely unchanged compared with the prior year period. Gold sales volumes increased by 24% year-on-year, while silver sales volumes decreased by 14% in line with production dynamics.

The average realised price of gold was US$1,247/oz in 2017, up 3% from US$1,216/oz in 2016, and slightly below the average market price of US$1,258/oz. The average realised silver price was US$16.1/oz, down 1% year-on-year and 6% below the average market price of US$17.0/oz as the bulk of Polymetal's sales were recorded in the second half of 2017 when the silver market prices were lower.

The share of gold sales as a percentage of total revenue increased from 68% in 2016 to 75% in 2017, driven by sales volume movements.

Analysis by segment/operation

		Revenue, US$m			Gold equivalent sold, Koz (silver equivalent for Dukat, Koz)		
Segment	Operation	2017	2016	Change	2017	2016	Change
Magadan	Dukat	405	497	-19%	25,415	30,771	-17%
	Omolon	266	207	+29%	211	168	+26%
	Mayskoye	139	119	+17%	124	114	+8%
	Total Magadan	**810**	**823**	**-2%**	**654**	**683**	**-4%**
Khabarovsk	Albazino/Amursk	350	294	+19%	277	234	+18%
	Okhotsk	142	149	-5%	111	122	-9%
	Svetloye	138	30	+360%	107	23	+360%
	Total Khabarovsk	**630**	**473**	**+33%**	**496**	**380**	**+31%**
Ural	Voro	155	157	-1%	123	125	-2%
Kazakhstan	Varvara	154	101	+52%	123	82	+50%
Armenia	Kapan	66	29	+128%	55	27	+104%
Total revenue		**1,815**	**1,583**	**+15%**	**1,456**	**1,301**	**+12%**

Sales at all operating mines were broadly in line with planned production dynamics.

Cost of sales

	2017 US$m	2016 US$m	Change
On-mine costs	414	320	+29%
Smelting costs	316	259	+22%
Purchase of ore and concentrates from third and related parties	92	38	+142%
Mining tax	88	82	+7%
Total cash operating costs	**910**	**699**	**+30%**
Depreciation and depletion of operating assets	193	162	+19%
Rehabilitation expenses	–	1	-100%
Total costs of production	**1,103**	**862**	**+28%**
Increase in metal inventories	(26)	(51)	-49%
Write-down of metal inventories to net realisable value	16	21	-24%
Total change in metal inventories	**(10)**	**(30)**	**-67%**
Write-down of non-metal inventories to net realisable value	3	6	-50%
Idle capacities and abnormal production costs	10	8	+25%
Total cost of sales	**1,106**	**846**	**+31%**

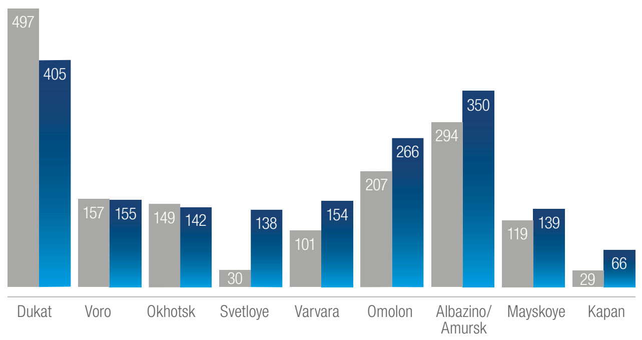
Cash operating cost structure

	2017		2016	
	US$m	% of total	US$m	% of total
Services	308	34%	232	33%
Consumables and spare parts	233	26%	193	28%
Labour	183	20%	147	21%
Purchase of ore and concentrates from third & related parties	92	10%	38	5%
Mining tax	88	10%	82	12%
Other expenses	6	1%	7	1%
Total	**910**	**100%**	699	100%

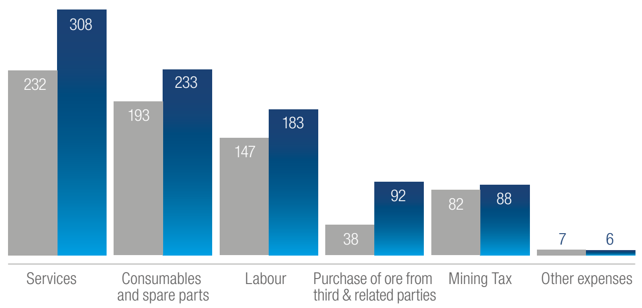
The total cost of sales increased by 31% in 2017 to US$1,106 million, mainly on the back of a negative effect from the Russian Rouble appreciating 15% compared with 2016, combined with a volume-based increase in production and sales (13% and 12% year-on-year in gold equivalent terms, respectively), as well as a significant increase in purchases of third-party ore and concentrate at Varvara and Amursk.

Compared with 2016, the cost of services and the cost of consumables and spare parts increased by 33% and 21%, respectively, driven by the higher gold equivalent production coupled with a stronger Russian Rouble.

Revenue by operation (US$m)



Cash operating cost structure (US$m)



The total cost of labour within cash operating costs in 2017 was US$183 million, a 24% increase over 2016, mainly stemming from additional labour costs at the new Kapan, Komar and Svetloye operations and annual salary increases (tracking domestic CPI inflation).

Mining tax increased by 7% year-on-year to US$88 million as production increased by 13%, and was mainly driven by regional tax incentives introduced in the Russian Far East and utilised at Dukat, Omolon and Svetloye.

Depreciation and depletion was US$193 million, up 19% year-on-year and largely driven by the negative effect of a stronger Russian Rouble with one specific increase attributable to Varvara where the depreciation of mineral rights for the new Komar asset has started.

In 2017, a net metal inventory increase of US$26 million was recorded (excluding write-downs to net realisable value) mainly represented by gold and silver concentrate produced but not yet sold at Dukat and Albazino. In the second half of the year, the Company successfully completed scheduled stockpile reductions, with total gold equivalent sales exceeding production by 42 Koz. De-stockpiling was mainly driven by concentrate shipments from Mayskoye and seasonal de-stockpiling at Svetloye.

General, administrative and selling expenses

	2017 US$m	2016 US$m	Change
Labour	116	87	+33%
Services	11	10	+10%
Share based compensation	10	7	+43%
Depreciation	4	3	+33%
Other	17	13	+31%
Total	**158**	120	+32%

General, administrative and selling expenses increased by 32% year-on-year from US$120 million to US$158 million on the back of Russian Rouble appreciation against 2016, as well as increased labour costs due to newly acquired operations, increased personnel at stand-alone exploration projects and regular salary reviews.

Other operating expenses

	2017 US$m	2016 US$m	Change
Exploration expenses	18	10	+80%
Social payments	15	10	+50%
Provision for investment in Special economic zone	12	14	-14%
Taxes, other than income tax	11	11	–
Housing and communal services	4	4	–
Loss on disposal of property, plant and equipment	1	1	–
Change in estimate of environmental obligations	(4)	(5)	-20%
Additional mining taxes and VAT exposures, penalties and accrued interest, net	(8)	(12)	-33%
Other expenses	(5)	3	NM[9]
Total	**44**	36	+22%

[9] NM – not meaningful.

Other operating expenses increased by 22% from US$36 million in 2016 to US$44 million in 2017. Written-off exploration expenses during the period increased by 80% to US$18 million. Cash-based exploration expenses in 2017 were US$16 million (2016: US$11 million).

Social payments totalled US$15 million, up 50% year-on-year. The increase was mostly attributable to the financing of social and infrastructure development projects at Kyzyl and the start of a social development programme at Kapan.

During 2017, the Group released US$6 million of accrued penalties and interest due to settlements with tax authorities at Kapan and paid US$6 million in relation to royalty provisions identified as of 31 December 2016. There were no other significant changes in tax provisions. For more information refer to Note 12 of the consolidated financial statements.

Total cash costs

Total cash costs per gold equivalent ounce[10]

		Cash cost per GE ounce, US$/oz			Gold equivalent sold, Koz (silver for Dukat)		
Segment	Operation	2017	2016	Change	2017	2016	Change
Khabarovsk	Okhotsk	702	648	+8%	111	122	-9%
	Svetloye	313	419	-25%	107	23	+360%
	Albazino/Amursk	676	529	+28%	277	234	+18%
	Total Khabarovsk	**603**	**710**	**-15%**	**496**	**380**	**+31%**
Magadan	Dukat (SE oz)[11]	8.2	6.4	+28%	25,415	30,771	-17%
	Omolon	652	503	+30%	211	168	+26%
	Mayskoye	1,040	1,011	+3%	124	114	+8%
	Total Magadan	**726**	**581**	**+25%**	**654**	**683**	**-4%**
Ural	Voro	383	322	+19%	123	125	-2%
Kazakhstan	Varvara	701	780	-10%	123	82	+50%
Armenia	Kapan	871	900	-3%	55	27	+104%
Total Group		**658**	**570**	**+15%**	**1,456**	**1,301**	**+12%**

[10] Total cash costs comprise cost of sales of the operating assets (adjusted for depreciation expense, rehabilitation expenses and write-down of inventory to net realisable value and certain other adjustments) and general, administrative and selling expenses of the operating assets. Gold equivalent sales volume is calculated based on average realised metal prices in the relevant period. Total cash cost per gold equivalent ounce sold is calculated as Total cash costs divided by total gold equivalent unit ounces sold.

[11] Dukat's total cash cost per gold equivalent was US$646/GE oz (2016: US$494/GE oz) and was included in the Group TCC calculation.

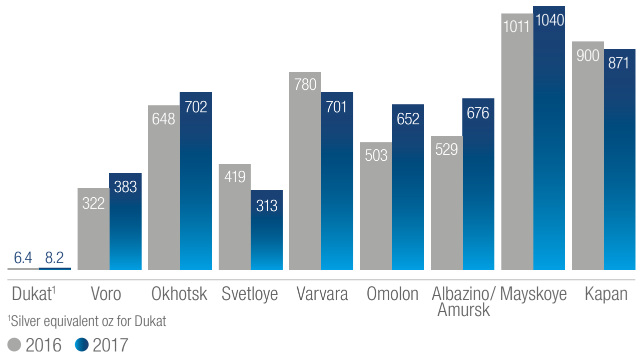
In 2017, total cash costs (TCC) per gold equivalent ounce sold were US$658/GE oz, up 15% year-on-year. The continuing appreciation of the Russian Rouble against the US Dollar had a negative impact on cost levels reported in US Dollars, which was partially offset by the robust operating performance at Varvara (Komar), Svetloye and Kapan.

The table below summarises major factors that have affected the Group's TCC dynamics year-on-year:

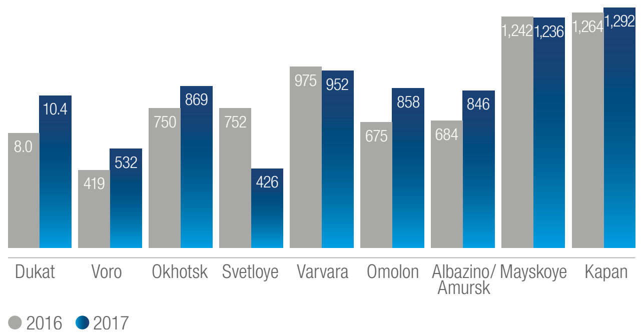
Reconciliation of TCC and AISC movements

	TCC		AISC	
	US$/oz	Change	US$/oz	Change
Cost per gold equivalent ounce – 2016	**570**		**776**	
USD rate change	77	14%	108	14%
Domestic inflation	13	2%	18	2%
Change in average grade processed by mines	8	1%	8	1%
Change in sales structure	7	1%	7	1%
Au/Ag ratio change	3	1%	3	0%
Mining tax change – Au&Ag price	1	0%	1	0%
Other	(21)	-4%	(27)	-4%
Cost per gold equivalent ounce – 2017	**658**	**15%**	**893**	**15%**

Total cash costs by operation (US$/GE oz)



All-in sustaining cash by segment (US$/GE oz)



Total cash cost (TCC) by operation:

- **Dukat's** TCC per silver equivalent ounce sold ('SE oz') increased by 28% year-on-year to US$8.2/SE oz. In addition to Russian Rouble appreciation, the cost increase is attributable to the planned silver grade decline at Dukat and Lunnoye underground mines.
- At **Voro**, TCC increased by 19% year-on-year to US$383/GE oz, which is largely attributable to a stronger Russian Rouble. At the same time, the heap leach facility and CIP plant continued to deliver a stable performance in line with the mine plan.
- At **Okhotsk**, TCC was US$702/GE oz, an 8% increase year-on-year, which is below the Russian Rouble appreciation during the year and was offset by third-party ore with better metallurgical properties that was introduced to the feed at the Khakanja plant in 2017.
- **Svetloye** was the lowest cost operation in 2017, with TCC of US$313/GE oz, 25% lower than in 2016 as it ramped-up to full capacity and achieved positive mine-to-model grade reconciliations.
- At **Varvara**, TCC was US$701/GE oz, declining by 10% year-on-year. The decrease mainly stemmed from significantly improved head grades at the leaching circuit, enabled by the quick ramp-up in ore railed from Komar that is displacing lower grade ore from Varvara.
- At **Omolon**, TCC amounted to US$652/GE oz, a 30% increase year-on-year, driven by the strengthening of the Russian Rouble. The costs in the second half of 2016 were also positively impacted by processing high-grade ore from Oroch.
- At **Albazino/Amursk**, TCC was US$676/GE oz, up 28% compared with 2016. The cost increase was mostly attributable to a seven-week maintenance and retrofit shutdown in May plus an additional 15-day maintenance shutdown in Q4, as well as processing of higher cost third-party concentrate.
- TCC at **Mayskoye** were US$1,040/GE oz, a 3% increase year-on-year and below the Russian Rouble appreciation, as the underground operation ramped-up and the production profile was supported by the crown pillar open-pit project.
- **Kapan's** TCC were US$871/GE oz, improved by 3% year-on year thanks to the operational and financial turnaround and the ongoing improvement measures to debottleneck the underground mine, while there were purchases of higher cost third-party material in order to utilise available capacity at the processing plant.

All-in cash costs

	Total, US$m			US$/GE oz		
	2017	2016	Change	**2017**	2016	Change
Total cash costs	**955**	**738**	**+29%**	**658**	**570**	**+15%**
SG&A and other operating expenses not included in TCC	112	98	+14%	77	76	+2%
Capital expenditure excluding new projects	141	120	+18%	97	93	+5%
Exploration expenditure (capital and current)	87	47	+85%	60	36	+65%
All-in sustaining cash costs[12]	**1,295**	**1,004**	**+29%**	**893**	**776**	**+15%**
Finance cost	63	63	–	43	49	-11%
Capitalised interest	8	5	+60%	6	4	+43%
Income tax expense	89	169	-47%	61	131	-53%
After-tax All-in cash costs	**1,455**	**1,241**	**+17%**	**1,003**	**959**	**+5%**
Development capital	170	121	+40%	117	94	+25%
SG&A and other expenses for development assets	20	14	+43%	14	11	+27%
All-in costs	**1,645**	**1,376**	**+20%**	**1,134**	**1,063**	**+7%**

[12] All-in sustaining cash costs comprise total cash costs, all selling, general and administrative expenses for operating mines and head office not included in TCC (mainly represented by head office SG&A), other expenses (excluding write-offs and non-cash items, in line with the methodology used for calculation of Adjusted EBITDA), and current period capex for operating mines (i.e. excluding new project capex ('Development capital'), but including all exploration expenditure (both expensed and capitalised in the period) and minor brownfield expansions).

All-in sustaining cash costs amounted to US$893/GE oz in 2017 and increased by 15% year-on-year, driven mostly by the increase in TCC as a result of the continued strengthening of the Russian Rouble, as well as increased exploration spending across the portfolio.

All-in sustaining cash cost by segment/operation

All-in sustaining cash costs by mines were represented as follows:

Segment	Operation	**2017 US$/GE oz**	2016 US$/GE oz	Change
Khabarovsk	Okhotsk	869	750	+16%
	Svetloye	426	752	-43%
	Albazino/Amursk	846	684	+24%
	Total Khabarovsk	**760**	**710**	**+7%**
Magadan	Dukat	10.4	8.0	+30%
	Omolon	858	675	+27%
	Mayskoye	1,236	1,242	-1%
	Total Magadan	**914**	**734**	**+25%**
Ural	Voro	532	419	+27%
Kazakhstan	Varvara	952	975	-2%
Armenia	Kapan	1,292	1,264	+2%
Total		**893**	**776**	**+15%**

All-in sustaining cash costs (AISC) followed TCC dynamics – driven by the exchange rate – and increased year-on-year across all operating mines, except for Svetloye and Mayskoye where strong operating performances outweighed the effect of other factors resulting in decreased AISC.

Adjusted EBITDA and EBITDA margin[13]

Reconciliation of Adjusted EBITDA

	2017 US$m	2016 US$m	Change
Profit for the year	**354**	395	-10%
Finance cost (net)	**59**	60	-2%
Income tax expense	**89**	169	-47%
Depreciation and depletion	**214**	155	+38%
EBITDA	**716**	**779**	**-8%**
Write-down of metal inventory to net realisable value	**16**	21	-24%
Write-down of non-metal inventory to net realisable value	**3**	6	-50%
Share based compensation	**10**	7	+43%
Net foreign exchange losses/(gain)	**10**	(65)	NM
Change in fair value of contingent consideration liability	**(2)**	22	NM
Rehabilitation costs	**–**	1	-100%
Additional mining taxes, VAT, penalties and accrued interest	**(8)**	(12)	-33%
Adjusted EBITDA	**745**	**759**	**-2%**

[13] Adjusted EBITDA is a key measure of the Company's operating performance and cash generation capacity (excluding impact of financing, depreciation and tax) and a key industry benchmark allowing to perform peer comparison. Adjusted EBITDA also excludes the impact of certain accounting adjustments (mainly non-cash items) that can mask underlying changes in core operating performance.
The Company defines Adjusted EBITDA (a non-IFRS measure) as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, foreign exchange gains or losses, changes in fair value of contingent consideration, finance income, finance costs, income tax expense and other tax exposures accrued within other operating expenses. Adjusted EBITDA margin is Adjusted EBITDA divided by revenue.

Adjusted EBITDA by segment/operation

Segment	Operation	2017 US$m	2016 US$m	Change
Magadan	Dukat	180	283	-36%
	Omolon	120	116	+3%
	Mayskoye	20	13	+54%
	Total Magadan	**320**	**412**	**-22%**
Khabarovsk	Albazino/Amursk	157	167	-6%
	Svetloye	101	18	+461%
	Okhotsk	58	71	-18%
	Total Khabarovsk	**316**	**256**	**+23%**
Ural	Voro	97	113	-14%
Kazakhstan	Varvara	68	36	+89%
	Kyzyl	(13)	(8)	+63%
	Total Kazakhstan	**55**	**28**	**+96%**
Armenia	Kapan	20	6	+233%
Corporate and other and intersegment operations		(63)	(56)	+13%
Total		**745**	**759**	**-2%**

In 2017, Adjusted EBITDA was US$745 million, down 2% year-on-year, resulting in an Adjusted EBITDA margin of 41%. The decrease was mainly driven by a 15% increase in TCC, which was to a large extent offset by 13% growth in GE production. At Omolon, Svetloye, Varvara, Mayskoye and Kapan, Adjusted EBITDA increased on the back of a strong operating performance, offsetting the negative impact of an appreciating Russian Rouble. Across other operating mines, Adjusted EBITDA declined year-on-year.

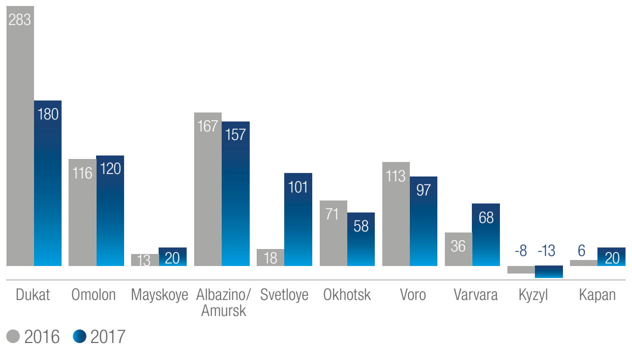
Other income statement items

Polymetal recorded a net foreign exchange loss in 2017 of US$10 million compared with a gain of US$65 million in 2016. These unrealised non-cash forex gains and losses recorded in both periods are mainly comprised of the revaluation of US-Dollar-denominated borrowings of Russian operating companies, where the functional currency is the Russian Rouble. The Group's average gross debt during 2017 was US$1,417 million, mostly denominated in US Dollars, while the RUB/USD exchange rate decreased from 60.7 RUB/USD as at 31 December 2016 to 57.6 RUB/USD as at 31 December 2017.

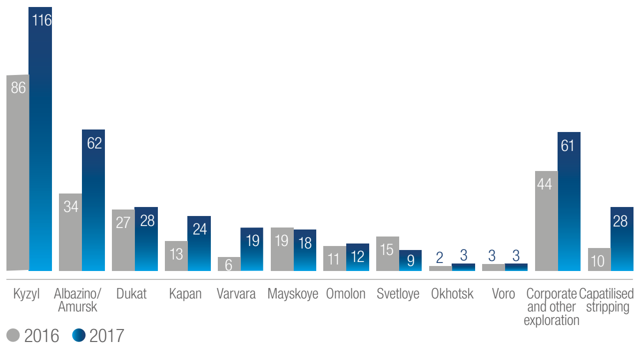
The Company does not use any hedging instruments for managing foreign exchange risk, other than a natural hedge arising from the fact that the majority of the Group's revenue is denominated or calculated in US Dollars. Though income statement volatility may arise in financial reporting, Polymetal believes that the underlying matching of revenue cash flows against debt repayments and related interest represents an economically effective hedging strategy.

Income tax expense for 2017 was US$89 million compared with US$169 million in 2016. The decrease was mainly attributable to the effect of regional tax incentives applied by operations in the Russian Far East, most notably Svetloye, Dukat and Omolon. For details refer to Note 13 of the consolidated financial statements.

Adjusted EBITDA by operation (US$m)



Capital expenditure (US$m)



Net earnings, earnings per share and dividends

The Group recorded a net income of US$354 million in 2017 versus US$395 million in 2016. Underlying net earnings (excluding after-tax impact of write-down of metal inventory to net realisable value, foreign exchange gains/losses and change in fair value of contingent consideration liability) were US$376 million, compared with US$382 million in 2016.

Reconciliation of underlying net earnings[14]

	2017 US$m	2016 US$m	Change
Profit for the financial year	354	395	-10%
Write-down of metal inventory to net realisable value	16	21	-24%
Tax effect on write-down of metal inventory to net realisable value	(3)	(4)	-24%
Foreign exchange loss/(gain)	10	(65)	NM
Tax effect on foreign exchange loss/(gain)	2	14	-84%
Change in fair value of contingent consideration liability	(2)	22	NM
Tax effect on change in fair value of contingent consideration	(1)	–	NM
Underlying net earnings	**376**	**382**	**-2%**

Basic earnings per share were US$0.82 per share compared to US$0.93 per share in 2016. Underlying basic EPS[15] was US$0.88 per share, compared to US$0.90 per share in 2016.

In accordance with the Company's revised dividend policy, the Board is proposing to pay a final dividend of US$0.30 per share (giving a total expected dividend of US$129 million) representing 50% of the Group's underlying net earnings for the period. During 2017, Polymetal paid a total of US$138 million in dividends, representing final dividends for FY 2016 and interim dividends for the first half of 2017.

[14] Underlying net earnings represent net profit for the year excluding the impact of key items that can mask underlying changes in core performance.
[15] Underlying basic EPS are calculated based on underlying net earnings.

Capital expenditure[16]

	2017 US$m	2016 US$m	Change
Kyzyl	116	86	+34%
Albazino/Amursk	62	34	+82%
Dukat	28	27	+4%
Kapan	24	13	+85%
Varvara	19	6	+217%
Mayskoye	18	19	-5%
Omolon	12	11	+9%
Svetloye	9	15	-40%
Okhotsk	3	2	+50%
Voro	3	3	–
Corporate and other	3	7	-57%
Exploration	58	37	+56%
Capitalised stripping	28	10	+169%
Total	**383**	**271**	**+41%**

In 2017, total capital expenditure was US$383 million[17], up 41% year-on-year mainly due to investments in construction and pre-stripping at Kyzyl and increased spending on brownfield exploration across the operating assets portfolio. Capital expenditure excluding capitalised stripping costs was US$355 million in 2017 (2016: US$261 million).

[16] On a cash basis.
[17] On accrual basis, capital expenditure was US$432 million in 2017 (2016: US$288 million).

The major capital expenditure items in 2017 were as follows:

- At all operating mines except for Albazino/Amursk, Kapan and Varvara, capital expenditures declined or remained almost unchanged year-on-year beyond the effect of Russian Rouble appreciation, and were mainly represented by routine mining fleet upgrades/replacements and maintenance expenditure at processing facilities.
- Capital expenditure at Albazino/Amursk was US$62 million, almost a two-fold increase year-on-year, mostly related to the POX debottlenecking project in the amount of US$40 million during 2017 (planned to reach full expanded capacity in the second half of 2018), underground engineering and other technical re-equipment, as well as the construction of the second tailings storage.
- US$24 million was invested at Kapan, mostly related to purchases of underground mining equipment and near-mine exploration, including drilling at Lichkvaz, as well as a number of initiatives to improve safety and reduce the environmental footprint of operations (centralised the mine ventilation, tailings storage facility upgrade, water treatment and recycling facilities).
- At Varvara, the increased capital expenditure is mainly related to debottlenecking of the railway station for cargo acceptance and purchases of railway carriages to allow transportation of larger volumes of ores from Komar and third parties, technical re-equipment and reconstruction of the tailing storage.
- At Kyzyl, capital expenditure in 2017 comprised US$116 million, mainly representing the main concentrator building, ore-preparation complex (the crusher, conveyor gallery and apron feeder), tailings storage facility, electric shovels, mechanical and repair shop and purchases of mining machinery, as well as capitalised pre-stripping of US$31 million.
- The Company invests in standalone exploration projects. Capital expenditures for exploration in 2017 was US$58 million compared with US$37 million in 2016.
- Capitalised stripping costs totalled US$28 million in 2017 (2016: US$10 million) and are attributable to operations with stripping ratios exceeding their life-of-mine (LOM) averages during the period, in particular Albazino (US$9 million), Varvara (US$6 million) and Omolon (US$6 million).

Cash flows

	2017 US$m	2016 US$m	Change
Operating cash flows before changes in working capital	601	557	+8%
Changes in working capital	(68)	(27)	+152%
Total operating cash flows	**533**	**530**	**+1%**
Capital expenditure	(383)	(271)	+41%
Acquisition costs in business combinations and investments in associates and joint ventures	(87)	(128)	-32%
Other	(7)	(2)	+250%
Investing cash flows	**(477)**	**(401)**	**+19%**
Financing cash flows			
Net increase in borrowings	76	26	+192%
Dividends paid	(138)	(158)	-13%
Contingent consideration payment	(5)	(2)	+150%
Total financing cash flows	**(67)**	**(134)**	**-50%**
Net decrease/increase in cash and cash equivalents	**(11)**	**(5)**	**+120%**
Cash and cash equivalents at the beginning of the year	48	52	-8%
Effect of foreign exchange rate changes on cash and cash equivalents	(1)	1	NM
Cash and cash equivalents at the end of the year	**36**	**48**	**-25%**

Total operating cash flows in 2017 remained stable compared with the prior year. Operating cash flows before changes in working capital grew by 8% year-on-year to US$601 million mainly as a result of a decrease in cash tax payments. Net operating cash flows were US$533 million, compared with US$530 million in 2016. This was also affected by an increase in working capital in 2017 of US$68 million.

Total cash and cash equivalents decreased by 25% compared with 2016 and comprised US$36 million, with the following items affecting the cash position of the Group:

- operating cash flows of US$533 million;
- investment cash outflows totalled US$477 million, up 19% year-on-year and mainly represented by capital expenditure (up 41% year-on-year to US$383 million), cash investments in new assets (namely, Nezhda US$20 million, Prognoz US$5 million, Kapan US$5 million) and loans advanced on capital expenditure at growth projects (Nezhda and Prognoz totalling US$52 million);
- payment of regular dividends for 2016 and the first half of 2017 amounting to US$138 million; and
- the net increase in borrowings of US$76 million.

Balance sheet, liquidity and funding

	31 Dec 17 US$m	31 Dec 16 US$m	Change
Short-term debt and current portion of long-term debt	26	98	-73%
Long-term debt	1,430	1,280	+12%
Gross debt	**1,456**	**1,378**	**+6%**
Less: cash and cash equivalents	36	48	-25%
Net debt	**1,420**	**1,330**	**+7%**
Adjusted EBITDA	**745**	**759**	**-2%**
Net debt/Adjusted EBITDA	**1.91**	**1.75**	**+9%**

The Group's net debt increased to US$1,420 million as of 31 December 2017, representing a Net debt/Adjusted EBITDA ratio of 1.91x.

The proportion of long-term borrowings comprised 98% as at 31 December 2017 (93% as at 31 December 2016). In addition, as at 31 December 2017, the Group had US$1.4 billion (31 December 2016: US$1.0 billion) of available undrawn facilities, of which US$1.3 billion is committed from a wide range of lenders, that maintain its operational flexibility in the current environment.

The average cost of debt remained low at 3.96% in 2017 (2016: 4.33%), supported by low base interest rates and the ability to negotiate competitive margins given the solid financial position of the Company and its excellent credit history. The Group is confident in its ability to repay its existing borrowings as they fall due.

2018 outlook

While we recognise that our financial performance remains contingent on commodity prices and the Rouble/Dollar exchange rate dynamic, which has a significant effect on the Group's operating costs, Polymetal expects to deliver a robust financial and operating performance in our first year of production from Kyzyl:

- The Company reconfirms its production guidance for 2018 and 2019 of 1.55 Moz and 1.7 Moz of gold equivalent, respectively.
- TCC in 2018 are expected to be in the range of US$650-700/GE oz while AISC are expected to average US$875-925/GE oz on the back of anticipated rising domestic diesel prices and expected strengthening of the Russian rouble.
- The capital expenditure in 2018 is expected to be slightly lower compared with 2017 at roughly US$400 million. Significant investments will be directed towards the completion of the Kyzyl and POX debottlenecking projects. The Company also plans to advance feasibility studies for Nezhda and POX-2 projects. Exploration spending is expected to stay elevated as Polymetal will continue its aggressive drilling campaign at the Prognoz silver project.
- As a result, the Company expects to continue to deliver positive free cash flow and prioritise dividends in our capital allocation process in 2018.

Maxim Nazimok
Chief Financial Officer

STRATEGIC REPORT GOVERNANCE FINANCIAL STATEMENTS APPENDICES

RISKS AND RISK MANAGEMENT

Companies in the mining sector are challenged with managing a rapidly changing risk landscape, including market volatility, widespread macroeconomic changes, geopolitical crises and environmental risks. Rigorous risk management is essential to the achievement of our strategic objectives and sustainable value creation and continues to remain a key part of our business model. We are committed to minimising risks to all our stakeholders through accurate and timely risk identification and effective mitigation activities.

Risk management framework

At Polymetal, we maintain a robust and sustainability-conscious risk management framework, which ensures that risks are properly identified, assessed against tolerance levels and appropriately managed across the Group. Our risk management system is designed to minimise the potential threats to achieving our strategic objectives and the process is underpinned by a bottom-up approach and examined from a top-down perspective, ensuring adequate involvement of the Board and executive management and alignment with the Company's strategy.

The global and local markets, in which we operate, remain volatile with shifting commodity prices and exchange rates, macroeconomic instability and unpredictable climatic conditions. The Board is responsible for carrying out a thorough assessment of the key risks facing the Company, including those threatening stakeholders, values, business model, operations, social and environmental issues, future performance, solvency or liquidity. On behalf of the Board, the Audit and Risk Committee reviews the effectiveness of the risk management process and develops and oversees implementation of risk management strategies. The Safety and Sustainability Committee measures the impact of the Company's initiatives and helps the Audit and Risk Committee to manage sustainability risks. The Audit and Risk Committee is supported by Group Internal Audit to enable effective risk identification, evaluation and mitigation process across the Company. Further information on the Board and its Committees is given in the Governance section on pages 81 to 87.

The principal risks identified during the process form the Group's principal risk profile, which is reviewed and approved by the Audit and Risk Committee three times a year. The potential impact of principal risks and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks are carefully considered during the annual assessment of future prospects and long-term viability of the Group. Further detail on our approach to assessing long-term viability can be found on page 112.

Risk management and internal control systems are continuously enhanced in accordance with COSO ERM framework and are adjusted for any changes to the UK Corporate Governance Code. They are also regularly reviewed to incorporate global best practice and add value to our business.

Top-down

Level	Function	Areas of focus
Board and Board Committees	Governance and oversight at corporate level	• Set the tone on risk management culture • Maintain sound and effective risk management and internal control systems • Define risk appetite and approve risk management policies, guidelines and processes • Responsible for principal risks identification and ongoing monitoring of the Company's risk exposure to ensure that material matters are managed in alignment with strategic objectives
Internal audit function	Support the Audit and Risk Committee in evaluating the Group's risk profile and internal controls implemented by management	• Define and monitor the risk management process and mitigation tools and actions • Plan and execute assurance activities to ensure there are policies and procedures in place to support the effectiveness of the Group's internal control system • Prepare regular risk and internal control reports for approval by the Audit and Risk Committee and maintain the Risk Assurance Map • Perform risk analysis on growth projects, detailing the specific conditions and risks faced by the new project
Operational managers	Operating risk management across mining operations and exploration	• Risk awareness embedded into day-to-day operations • Risks identification and assessment performed across business operations on the everyday basis • Implementation of risk mitigation programmes and operational monitoring of internal controls

Bottom-up

1 Risk identification and documentation

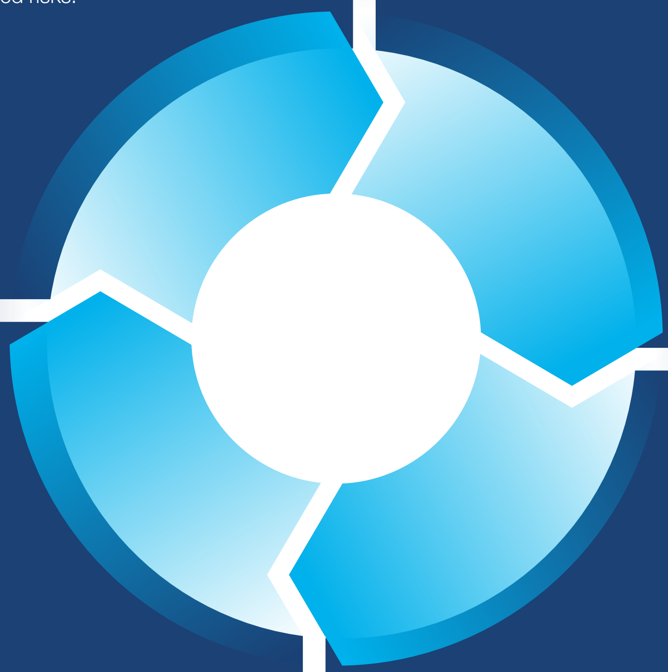
Risk awareness is embedded within the Group and is grounded in our strong ethical values and pro-active corporate culture. Our risk management philosophy is cascaded top down from the Company's Board of Directors and runs through all our management, employee and connected stakeholder activities – from developing strategy to day-to-day operations.

Our policy is to identify and assess risks at the earliest possible stage and to implement an appropriate risk response and internal controls in advance. Our risk management procedures are designed to delegate the responsibility for risk identification while avoiding gaps and duplications. Risk identification requirements are also taken into account in the design of accounting and documentation systems in order to be able to identify and process information on potential risk triggers. Polymetal's risk identification system considers not only single, mutually exclusive risks, but also multiple linked and correlated risks.

2 Risk assessment

Once identified, potential risk factors are assessed to consider the quantitative and qualitative impact that they might have on the business and the likelihood of the event (see table below). Together these create a risk profile.

The Audit and Risk Committee monitors risk KPIs for all principal risks a three times a year. Risk matrices and assurance maps are used to record, prioritise and track each risk through the risk management process. These are reviewed regularly by the Audit and Risk Committee.



4 Monitoring and reporting

Ongoing monitoring processes are embedded in Polymetal's business operations. These track the effective application of internal control and risk management policies and procedures, including internal audit and specific management reviews. Risk matrices and assurance maps are used to re-evaluate and adjust controls in response to changes in the Company's objectives, its business and the external environment.

Management is responsible for the implementation of effective follow-up procedures to ensure appropriate actions occur in response to changes in risk and control assessments.

3 Development and implementation of risk mitigation strategies

When the appropriate ranking has been identified, a response to each risk is formulated and implemented. Management assesses the effects of a risk's likelihood and impact, as well as the costs and benefits of possible mitigating actions. A response is then determined and implemented to bring the risk within acceptable tolerance levels.

RISK MATRIX

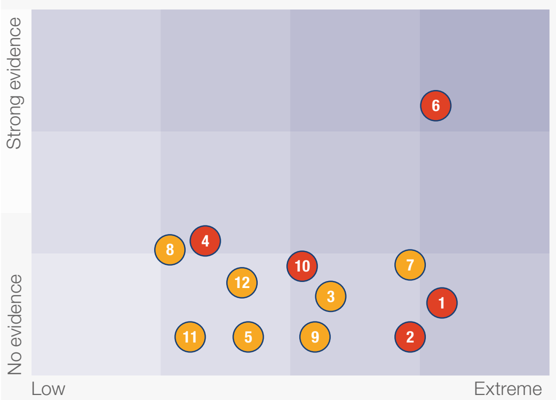
CONSEQUENCE

Risk impact	Insignificant	Minor	Moderate	Major	Catastrophic
Harm to people	Slight injury or health effects – first aid/minor medical treatment level	Minor injury or health effects – restricted work or minor lost workday case	Major injury or health effects – major lost workday case/permanent disability	Permanent total disabilities, single fatality	Multiple fatalities
Environmental impact	Minimal harm	Material harm	Serious harm	Major harm	Extreme harm
Business disruption/ asset damage & other consequential loss	Less than 1% Adjusted EBITDA	1-5% Adjusted EBITDA	5-10% Adjusted EBITDA	10-20% Adjusted EBITDA	More than 20% Adjusted EBITDA
Legal and regulatory	Low level legal issue	Minor legal issue; non-compliance and breaches of the law	Serious breach of law; investigation/ report to authority, prosecution and/or moderate penalty possible	Major breach of the law; prosecution and penalties applied	Very considerable penalties and jail term
Impact on reputation	Slight impact – public awareness may exist but no public concern	Limited impact – local public concern	Considerable impact – regional public concern	Limited impact – national public concern	International impact – international public concern

LIKELIHOOD

Rare	Unlikely	Possible	Likely	Almost certain
Never occurred or is highly unlikely to occur in the next 20 years	Occurred several times or could happen within 20 years	Occurred at some point within 10 years and may re-occur within 10 years	Occurred infrequently: less than once a year and is likely to re-occur within 5 years	Occurred frequently: one or more times per year and is likely to re-occur within one year

EVIDENCE OF PRINCIPAL RISKS OCCURRENCE



1. Market risk
2. Production risk
3. Construction and development risk
4. Tax risk
5. Exploration risk
6. Health and safety risk
7. Environment risk
8. Legal risk
9. Political risk
10. Currency risk
11. Liquidity risk
12. Interest rate risk

Medium
High
↔ No change since 2016

PRINCIPAL RISKS

Set out below are the Group's principal risks and related mitigation strategies. Principal business risks are identified by the Board based on a detailed understanding of the Company, its markets and the legal, social, political, economic, technological, environmental and cultural environments in which we operate, and robust assessment of the likelihood of occurrence and potential consequences of risk event. For the current reporting period, we validated the continued importance of our 12 principal risks and our risk profile remains stable relative to last year.

Risk description and potential effect	Risk response	Risk level
1. MARKET RISK	**Link to strategy: Deliver robust operating and financial performance**	
Gold and silver price volatility may result in material and adverse movements in the Company's operating results, revenues and cash flows.	The Company has developed and implemented procedures to ensure consistent cash flow generation at operating mines, including: • redistribution of ore feedstock between deposits within a hub to achieve higher margins due to better grade profile, better logistics or less expensive mining methods; • deferring the start of production while continuing ore stacking to achieve better cost profiles due to positive effects of scale; • managing the volume of third-party ore purchases; • staffing level review and hiring freeze; and • asset-level cost-cutting. Reserve and resource prices, as well as cut-off grades, are reviewed at least annually to conservatively reflect the prevailing commodity price levels. Short-, medium- and long-term life-of-mine plans are adjusted as appropriate. Stress testing for these conservative price assumptions is performed to ensure resilience of the operating mines in a stress scenario and continued value creation. Contingency action plans have been developed to address performance in a stress scenario. While precious metals prices remain volatile, the measures taken by the Company ensure that each operating mine remains cash flow positive. The Company will continue with this approach. Currently, the Group does not hedge its commodity price exposure since its strategy is to offer stakeholders full exposure to the potential upside of gold and silver pricing.	High ↔
2. PRODUCTION RISK	**Link to strategy: Deliver robust operating and financial performance**	
The risk of failure to meet the planned production programme. Failure to meet production targets may adversely affect operating performance and the financial results of the Group. The key sources of risk may include: • inability to achieve volume, grade or recovery assumed nlife-of-mine plans; • failure of supply chains to procure complex logistics to remote locations; • failure to retain key employees or to recruit new staff; and • failure of contractors to meet required performance standards.	• Inability to achieve volume, grade or recovery assumed in life-of-mine plans Annual, quarterly and monthly production budgeting and subsequent monthly control against budget is designed to mitigate the risk. The effectiveness and efficiency of the production process is ensured by the Group's engineering team senior management. An approved production programme includes increased volume of operational prospecting works, such as in-fill drilling and grade control sampling. To mitigate the risk, the Group invests considerable amounts in ore quality assessment procedures and seeks to control ore quality by separate stockpiling of ore with the required characteristics. • Failure of supply chains to procure complex logistics to remote locations The Group has implemented and constantly improves the supply chain system to closely link the production demand of resources with inventory levels, optimise the number of order placements and ensure the in-time inventory and equipment delivery to production sites. • Failure to retain key employees or to recruit new staff Remuneration policies are designed to incentivise, motivate and retain key employees. There is an increased focus on health and safety – refer to pages 52-53 of this report. There is an active promotion of a positive corporate culture within the Group. • Failure of contractors to meet required performance standards The contractors' performance control system is designed, implemented and applied.	High ↔

3. CONSTRUCTION AND DEVELOPMENT RISK

Link to strategy: Deliver medium-term growth

Risk description and potential effect	Risk response	Risk level
Inability to achieve target return on capital for large investment projects, such as building new mines and processing facilities or extension/refurbishment of existing operating mines, due to delay in commissioning or capital expenditure overruns. This may have a negative impact on the Group's financial performance and cash flows.	The Company applies global best practices in project management. The Group's technical personnel are in charge of the project's capital expenditure, including project support, supply chain management and permitting process. A significant share of projects is developed by the in-house engineering company, Polymetal Engineering, which has vast experience and a successful track record of design and ramp up of mines and processing facilities. We are continuously improving our construction risk management systems and employ leading world-class consultants in applicable areas.	↔

4. TAX RISK

Link to strategy: Deliver robust operating and financial performance

Risk description and potential effect	Risk response	Risk level
Due to frequent changes in tax legislation in Russia, Kazakhstan and Armenia, lack of established practices in tax law means that additional costs such as taxes or penalties may occur. The taxation risk level correlates with the legal and political risks levels. Multinational companies will continue to be subject to considerable public scrutiny across the world within the BEPS (Base Erosion and Profit Shifting) action plan.	The Group's policy is to comply fully with the requirements of applicable tax laws, providing adequate controls over tax accounting and tax reporting. Nevertheless, the ongoing changes to Russian, Kazakh and Armenian tax legislation, and evolving practice of application of these laws in courts, could lead to tax disputes and potential additional tax liabilities. The Group regularly evaluates its tax positions to ensure they are adequately reflected in the consolidated financial statements. To date, the Group is not aware of any significant outstanding tax claims, which could lead to additional taxes accrued in the future (except for amounts already booked or disclosed in the Group's financial statements). The Group is continuously monitoring its tax strategies and tax structures to comply with the new landscape created by BEPS without suffering unwarranted disruptions in business operations or incurring excessive tax costs.	↔

5. EXPLORATION RISK

Link to strategy: Build and advance long-term growth pipeline

Risk description and potential effect	Risk response	Risk level
Exploration and development are time and capital-intensive activities and may involve high degrees of risk but are necessary for the future growth of the business. Failure to discover new reserves of sufficient magnitudecould adversely affect the Company's future performance.	Risk and uncertainty are inherent for exploration and development activities. The Group invests considerable amounts in key exploration projects to obtain sufficient information about the quantity and quality of new reserves and to estimate expected cash flows. The Group's Chief Geologist and engineering teams have a strong track record of successful greenfield and brownfield exploration, leading to the subsequent development of exploration fields into commercial production.	↔

6. HEALTH AND SAFETY RISK

Link to strategy: Maintain high standards of governance and sustainable development

Risk description and potential effect	Risk response	Risk level
The Group operates potentially hazardous sites such as open-pits, underground mines, exploration sites, processing facilities and explosive storage facilities. The operation of these sites exposes our personnel to a variety of health and safety risks.	A control system covering occupational and industrial safety in the Company is in place, including risk assessment of individual work places and the use of safety equipment for the protection of personnel. The Company has reinforced the need for individual responsibility for personal safety and risk awareness, and developed additional security measures to ensure strict compliance with safety requirements by employees. The Group's general approach to this risk is determined by the Group's Health and Safety Policy, which serves as the basis for the Occupational Health and Safety Management System (OHSMS). The Group adopts the industry's global best practice in managing these risks and ensuring safe working conditions for our employees. Our OHSMS ensures compliance with international, national and local regulatory requirements and is based on modern standards. It is also certified in accordance with the OHSAS 18001. The Group has strong safety procedures across all its operating mines and has implemented additional measures to ensure proper enforcement of these stricter safety standards. We have intensified training programmes, with a particular focus on high-risk functions, and implemented a number of other measures, including a change of underground mining methods at certain sites. We are continuing to conduct a detailed review of the source of injuries and are further improving the shift risk assessment system, as well as conducting an external audit of our health and safety system.	↔

7. ENVIRONMENT RISK

Link to strategy: Maintain high standards of governance and sustainable development

Risk description and potential effect	Risk response	Risk level
Major pollution arising from operations include: deforestation, air and water pollution, land contamination. Potential impacts include fines and penalties, statutory liability for environmental redemption and other financial consequences that might be significant.	The Company operates a certified environmental management system which meets international standards and is audited for compliance. The Company has implemented a number of initiatives to monitor and limit the impact of its operations on the environment, including external expert assessment of the pollution generated and adopting industry best practice for corporate and mine level policies and procedures.	↔

8. LEGAL RISK

Link to strategy: Maintain high standards of governance and sustainable development

Risk description and potential effect	Risk response	Risk level
Operating in developing countries, such as Russia, Kazakhstan and Armenia, involves the risk that changes in tax and other legislation may occur from time to time. The most sensitive areas are regulation of foreign investments, private property, environmental protection and taxation. In recent years, the governments of Russia and Kazakhstan have become more consistent regarding the introduction of new regulations and taxes, demonstrating an awareness of investment climate issues. However, in the application of existing legislation requiring interpretation, courts often uphold the more assertive position of the tax authorities, which does not always coincide with the Company's position. As a result of changes in laws and regulations, certain types of transactions and technologies may become unavailable to the Group or the costs of compliance may be increased.	Polymetal has a successful track record of operating in Russian, Kazakh and, more recently, Armenian jurisdictions, having developed its own expertise in corporate, tax, licensing and other legal areas. Corporate and operating management teams are responsible for meeting the legal requirements in their operating activities. Head office and on-site legal teams guarantee appropriate controls over compliance issues. The Group's policy is to ensure strict legal compliance in all jurisdictions where Group companies operate. The Group's financial and legal teams monitor current legislation and proposed changes, and incorporate these into the practice, involving leading external experts where appropriate.	↔

9. POLITICAL RISK

Link to strategy: Maintain high standards of governance and sustainable development

Risk description and potential effect	Risk response	Risk level
Operating in Russia, Kazakhstan and Armenia involves some risk of political instability, which may include changes in government, negative policy shifts and civil unrest. Financial and economic sanctions imposed in 2014-2017 by the United States and the European Union on certain businesses and individuals in Russia increased political tensions and economic instability; there is a risk that further sanctions could impact the Group's ability to operate in Russia. Russia's complex relations with the United States and European Union, as well as its involvement in conflicts in the Middle East, may potentially present a risk to Group's operations. In addition, there is a risk that due to the deterioration of the macroeconomic situation, governments in Russia, Kazakhstan and Armenia may consider imposing currency controls and limitations on capital flows. These factors are not expected to affect the Group's operating performance, yet may have a negative impact on the ability of the Group to secure external financing. These factors may have an adverse effect on the Group's market value and operating environment.	The Group actively monitors political developments on an ongoing basis. We aim to maintain open working relationships with local authorities in the countries where we operate. Sanctions imposed on Russian individuals and businesses in 2014-2017 have not currently had any direct influence on the Group's operations. However, at the same time, to a limited extent they have affected both the macroeconomic situation in Russia and interest rates for borrowings.	↔

Risk description and potential effect	Risk response	Risk level
10. CURRENCY RISK	**Link to strategy: Deliver robust operating and financial performance**	
The risk arises from Company's receipts from metal sales and foreign currency denominated debt, as well as the foreign currency denominated cost of imported capital goods and consumables.	Natural hedging is used to reduce the risk exposure: revenue is matched with US Dollar denominated debt. Flexible budgeting is used to monitor the effect of exchange rate fluctuations on the Group's financial results. The Group has determined critical exchange rates levels for its operations and is monitoring risk against these levels. During 2017 there was moderate volatility of the Russian Rouble and Kazakh Tenge exchange rates against foreign currencies. The Company believesthat critical devaluation of these currencies is unlikely. The Armenian Dram was stable during 2017.	↔
11. LIQUIDITY RISK	**Link to strategy: Deliver robust operating and financial performance**	
The inability to raise sufficient funds to meet current operating or ongoing financial needs or to develop new projects and growth. Inadequate cash management in terms of cash flow forecast, available resources and future requirements.	The Group's treasury function is responsible for ensuring that there are sufficient funds in place, including loan facilities, cash flow from operating activities and cash on hand to meet shortterm business requirements. Long-term credit lines and borrowings are used to finance new projects and organic growth. The Group ensures that significant undrawn committed facilities are in place to cover any funding gaps.	↔
12. INTEREST RATE RISK	**Link to strategy: Deliver robust operating and financial performance**	
The Group is exposed to the interest rate risk as the significant part of the Group's debt portfolio is US Dollar-denominated floating rate borrowings.	The Group monitors recent trends for any increase in base rates by the US Federal Reserve since the election results in the United States. Although market interest rates have gone up during the past 12 months, the magnitude of risk remains low as rates continue to rise (fueled by expectations of a Federal rate hike and US Dollar inflation), the dominant market expectation is that this will continue. Management proactively locked interest rates on significant parts of the loan portfolio (currently 46%) in anticipation of the rate rise. Current negotiations with banks include assessment of their fixed vs floating rates. The Group does not rule out the possibility of further fixing the interest rate on its borrowings should assessment of the ongoing economic situation suggest this would reduce the risk level.	↔

CHAIRMAN'S LETTER

"Respect for our stakeholders, employees and the environment are all integral to making Polymetal a profitable business. We are committed to building a successful corporate culture with a sustainable future."

Dear Shareholders

Maintaining and delivering returns to our shareholders remains an absolute for Polymetal. Alongside the constant focus on our current portfolio and projects in the pipeline, which provide us with financial stability, it is also vital that we look to the future of the business in terms of both our leadership and skills base. We have put in place a succession programme that will increase the breadth of expertise and enhance the independence of the Board in its decision making. Retaining and training employees is also key to achieving our long-term goals. Each year, we commit substantial funds to both internal and external training opportunities, and we are already seeing promotions from within our own talent pool.

Adhering to key strategic goals

Core to the role of the Board is ensuring that the business adheres to its key strategic goals. The delivery of a dividend that is both significant and sustainable throughout the cycle is crucial to our shareholders. Our positive free cash flow enabled us to meet our obligations and continue to deliver a sector-leading TSR. At the same time, we met our production guidance with particularly good performances from Svetloye, Komar and Amursk POX, supporting our plans for growth and quality at our existing operations. Our strong financial discipline ensures that we control costs, but we are still looking to increase our reserves; the latest estimates from Nezhda reaffirmed our confidence in this asset. Kyzyl takes centre stage when it launches later this year successfully fulfilling our medium-term growth plans. However, with our investments in Nezhda as well as in the largest undeveloped silver asset in Russia at Prognoz, we have already started looking at the next phase of our development programme. Throughout all our activities, we are mindful of our responsibilities in upholding the highest ethical standards and best practice in corporate governance and sustainable development.

Future proofing the business

Through open channels of communication, we keep all our stakeholders informed about major plans for the business and, in doing so, develop good working relationships and create value for Polymetal. Similarly, it is important that investors and analysts have a good understanding of our strategy and operations. Our investor relations programme includes regular presentations and webcasts, as well as opportunities to meet and discuss issues with senior management. In 2017, we also met with key shareholders to discuss various governance and sustainability matters. The Board believes that the disclosures set out on pages 18 to 69 of the Annual Report provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

During 2017, Polymetal instigated the first stages of a comprehensive Board succession programme, which will ensure that we continue to have a majority of independent directors on a board while at the same time providing a greater depth in finance, mining and institutional investment skills. Russell Skirrow and Len Homeniuk, long-standing members of the Board, will be stepping down at the 2018 AGM and, on behalf of the Board and Polymetal, I would like to thank them both for their invaluable contributions. Three new board members, Tracey Kerr, Giacomo Baizini and Ollie Oliveira were appointed in 2018 and will be offering themselves for election at the AGM.

Succession planning is also of vital importance in ensuring that we are able to access a combination of skills and experience across all levels that will, in turn, deliver the effective and strategic leadership needed to take the business forward. Our Young Leaders Programme provides bespoke training for our future generation of senior managers and is invaluable to our ability to compete successfully in the marketplace.

Our Safety and Sustainability Committee continues to devote considerable efforts to improvement of safety measures and maintenance of appropriate risk management procedures. The Committee met six times in 2017 and will continue to address sustainability issues in due course. A joint meeting was held between the Safety and Sustainability and Audit and Risk Committees to carry out an in-depth review of the results of the internal audit of environmental and safety risks and how to mitigate against them. There are definite synergies to be gained from such joint working and is something that we will be encouraging where it enhances continuity and increases awareness among the Board Committees.

Achieving international accolades

We are particularly pleased that our commitment to good environmental, social and governance practices continues to gain recognition from external agencies. We achieved a significant improvement in our ratings for FTSE4Good, Sustainalytics and Dow Jones, scoring maximum points for governance and most improved for our environmental practices. We were ranked the leader in environmental management among Russian metals and mining companies by the World Wildlife Fund/UN. We were shortlisted by IR Magazine Europe for the Best ESG Communications and our business case for electric vehicles in underground mines won the award for the best use of technology at the MINEX 2017 conference. More details about these and all our ESG activities are available in our Sustainability Report 2017.

Respect for our stakeholders, employees and the environment is integral to making Polymetal a profitable business. The Board works closely with the senior management team to ensure that the framework for corporate governance is embedded in every aspect of our operation. Through ethical standards and responsible behaviour, together we are committed to building a successful corporate culture with a sustainable future.

Bobby Godsell

Bobby Godsell
Chairman

STRATEGIC REPORT
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BOARD OF DIRECTORS

BOBBY GODSELL
CHAIRMAN OF THE BOARD OF DIRECTORS

N

Appointed: 29 September 2011.

Previous experience: Chairman of Business Leadership South Africa, President of the South African Chamber of Mines, Chairman of Eskom, Chief Executive of AngloGold Ashanti, Director of African Barrick Gold and Solar Capital, Chair of the Board of Optimum Coal Holdings, acquired by Glencore plc. Director of Platmin Limited, Member of the South African National Planning Commission.

Qualifications: BA from the University of Natal and MA from the University of Cape Town.

Other roles: Co-Chairman of the South African Millennium Labour Council. Non-executive Director of the South African Industrial Development Corporation.

CHRISTINE COIGNARD
SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

R A N

Appointed: 01 July 2014.

Previous experience: 30 years' experience in the banking industry and advisory services world-wide, gained in banking at the Royal Bank of Canada, Société Générale and Citi; International Consultant for the Apogee Gold Fund based in Boston; project manager for Interros in Russia; Director of investments and financing for Norilsk Nickel; Managing Director at HCF International Advisers.

Qualifications: Business degree from EMLYON, France, and MBA from the Schulich School of Business, Toronto, Canada.

Other roles: Managing Director and Founding partner of Coignard & Haas GmbH, Independent director at Eramet and member of its Audit, Risks and Ethics Committee and Strategy and Corporate Social Responsibility Committee.

VITALY NESIS
GROUP CHIEF EXECUTIVE OFFICER

S

Appointed: 29 September 2011.

Previous experience: JSC Polymetal's Chief Executive from 2003, Member of its Board, 2004-2012. CEO of Vostsibugol, 2002-2003. Strategic Development Director at the Ulyanovsk Automobile Plant in 2000.

Qualifications: BA in Economics from Yale University; MA in Mining Economics from St. Petersburg Mining Institute.

Other roles: Head of the Investment Planning Department at SUAL-Holding, 2001-2002. McKinsey in Moscow, 1999-2000. Merrill Lynch in New York, 1997-1999.

MARINA GRÖNBERG
NON-EXECUTIVE DIRECTOR

S

Appointed: 29 September 2011.

Previous experience: Board member of JSC Polymetal, 2008-2012. Various positions in banks and private equity firms.

Qualifications: Degrees in Economics and Finance, and in Law from Moscow State Law Academy and in Applied Mathematics from Moscow State University.

Other roles: Board member of Waterstones (UK), Hachette-Atticus, MIG Credit, Kopter Group, PIK Group and Nexwafe GmbH; member of the Board of A&NN Investments and Vitalbond; Member of the Supervisory Board of Tallano Technologie (France); Chairman of Alpha Trust Investment committee; President of the Charity Fund named after Nadezhda Brezhneva.

JEAN-PASCAL DUVIEUSART
NON-EXECUTIVE DIRECTOR

Appointed: 29 September 2011.

Previous experience: Managing Partner for Central Europe and the CIS at McKinsey; joined McKinsey in 1992 and worked in Brussels, New York and Central Europe before becoming Managing Partner in Prague. Advised to banks, insurers and industrial companies in Russia and Central Europe. Former Executive Director of Nomos Bank.

Qualifications: MBA from the University of Chicago; Master's degree in Commercial Engineering, Catholic University of Louvain, Belgium.

Other roles: Shareholder of PPF Group N.V. since 2010. Board member of Home Credit B.V., the Anglo-American School of Moscow and Charity foundation Foodbank Rus. Member of the European Regional Business Council of the World Economic Forum Davos.

KONSTANTIN YANAKOV
NON-EXECUTIVE DIRECTOR

Appointed: 29 September 2011.

Previous experience: Member of JSC Polymetal's Board of Directors, 2008-2012and member of its Audit Committee. Various positions at MDM Bank. CFO of JSC Polymetal until 2004. Member of the Board at Piraeus Bank, Inbank, Greek Organisation of Football Prognostics (OPAP S.A.), and Tiscali S.p.A., and non state pension fund 'Future', member of the Supervisory Board of Rigensis Bank.

Qualifications: MBA from the London Business School; PhD in Economics from the Russian State University of Management; degree in Global Economics from the Government of Russia's Finance Academy.

Other roles: Deputy Director General in charge of Finance at CJSC ICT, Director of ICT Holding Ltd and member of the Board at O1 Properties Limited.

Key
- Committee Chair
- A Audit and Risk Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety and Sustainability Committee

RUSSELL SKIRROW[1]
INDEPENDENT NON-EXECUTIVE DIRECTOR

A S

Appointed: 29 September 2011.

Previous experience: Board member of JSC Polymetal, 2008–2012. Total of 36 years' experience working in the global mining industry and investment banking, including ten years at Merrill Lynch in London as Head of Global Metals, Mining & Steel Research and subsequently as Global Chairman of the Metals/Mining investment banking team, and during the 1980s and early 1990s in Gold Fields Ltd (South Africa) and Western Mining Corporation in Australia, and the USA. Chairman of Dampier Gold Ltd 2010-2013.

Qualifications: BSc with Honours in Geology from Durham University and a PhD from the Royal School of Mines, Imperial College, London. Member of the Institute of Materials, Minerals & Mining with Chartered Engineer status and Fellow of the Financial Services Institute of Australasia.

LEONARD HOMENIUK[2]
INDEPENDENT NON-EXECUTIVE DIRECTOR

S N R

Appointed: 29 September 2011.

Previous experience: Board member of JSC Polymetal, 2010-2012. President, CEO and member of the Board of Directors of Centerra Gold, 2004-2008. Chair, President and Chief Executive Officer of Polygon Gold Inc., 2011-2014. Held executive positions with Centerra Gold, Kumtor Gold and Cameco Corporation.

Qualifications: MSc from the University of Manitoba. Member of the Ontario Society of Professional Engineers, the Canadian Institute of Mining and Metallurgy and the Prospectors and Developers Association of Canada. Honorary Professor at the Kyrgyz Mining Institute.

Other roles: Director of Trade Ideas LLC.

GIACOMO BAIZINI[4]
INDEPENDENT NON-EXECUTIVE DIRECTOR

A R

Appointed: 1 January 2018.

Previous experience: EVRAZ plc Group CFO in 2009-2014 and various positions in operations planning and business development since joining the Group in 2005. Prior to joining EVRAZ, Mr. Baizini was a management consultant with McKinsey & Co. in their Milan and Tokyo offices.

Qualifications: Summer MBA from the Kellogg Graduate School of Management; MA Hons in Physics from the University of Oxford and a Diploma of Industrial Engineering from the Japan Management Association.

Other roles: General Manager of EVRAZ Group S.A.

JONATHAN BEST
INDEPENDENT NON-EXECUTIVE DIRECTOR

A R

Appointed: 29 September 2011.

Previous experience: Over 35 years' experience in the mining industry. Board member of JSC Polymetal, 2006-2012; Chairman of the Audit Committee of Gulf Industrials; Chairman of Sentula Mining and Bauba Platinum, and member of their nomination and remuneration committees; Chairman of GoldStone Resources; Interim CEO of Trans-Siberian Gold in 2006; CFO and Executive Director of AngloGold Ashanti.

Qualifications: MBA from the University of the Witwatersrand, Johannesburg, Chartered Management Accountant (ACMA), Associate of the Chartered Institute of Secretaries and Administrators.

Other roles: Non-executive Director of AngloGold Ashanti Holdings plc and Chairman of its Audit Committee; Non-executive Director and Chairman of the Audit Committee of Metair Investments.

TRACEY KERR[3]
INDEPENDENT NON-EXECUTIVE DIRECTOR

N S

Appointed: 1 January 2018.

Previous experience: 30 years' experience in the international mining industry. Held the role of Group Head of Exploration with Anglo American Plc, 2011-2015. Before joining Anglo American in 2011 she held technical and exploration management roles with Vale and BHP Billiton, based in Australia, UK, Canada and Brazil.

Qualifications: MA in Economic Geology from University of Tasmania, Diploma in Company Direction from the Institute of Directors, United Kingdom.

Other roles: Group Head of Safety and Sustainable Department in Anglo American plc.

[1] Mr Skirrow served as a Director in 2017 and will not be offering himself for re-election at the AGM 2018.
[2] Mr Homeniuk served as a Director in 2017 and will not be offering himself for re-election at the AGM 2018.
[3] Ms Kerr was appointed by the Board with effect from January 1, 2018 as independent non-executive Director, Chair of the Safety and Sustainability Committee and member of the Nomination Committee. She is subject to election at the AGM 2018.
[4] Mr Baizini was appointed by the Board with effect from January 1, 2018 as independent non-executive Director and member of the Audit and Risk and Remuneration committees. He is subject to election at the AGM 2018.

SENIOR MANAGEMENT

VITALY SAVCHENKO
CHIEF OPERATING OFFICER

Appointed: 2009

Experience: Director of the Production Department, 2007-2009, senior production and technical positions since 2004. Chief Underground Mine Engineer at Priargunskoye Mining and Chemical Company as well as various managing positions at the mine, 1994-2003. Recipient of second and third-category Miner's Glory Medal.

Qualification: Degree with Honours in Underground Mineral Mining engineering, Kyrgyz Mining Institute; MBA from the UK's Open University Business School.

SERGEY TRUSHIN
DEPUTY CEO, MINERAL RESOURCES

Appointed: 2010

Experience: Chief Geologist at the Khabarovsk Exploration Company, 2008-2010. Chief Geologist at Albazino Resources 2006-2008 and various positions at Albazino Resources since 1998. Geologist with Dalnevostochnie Resources, 1991. Geologist with the Production Geological Association 'Dalgeology' and the Nizhne-Amursk exploration expedition in the preceding six years.

Qualification: Degree in Geological Surveying and Mining Engineering Exploration from the Novocherkassk State Polytechnic Institute.

PAVEL DANILIN
DEPUTY CEO, STRATEGIC DEVELOPMENT

Appointed: 2009

Experience: Previous roles in Polymetal: Director of Corporate Finance and Investor Relations, Head of Corporate Finance. Head of Corporate Finance at CJSC ICT, 2002 and 2003. Deputy Head of Currency Department and Head of Financial Resources Department at the Kaliningrad branch of Bank Petrocommerce, 1998-2001.

Qualification: MBA from the University of California at Berkeley, Haas School of Business. Degree in Economics and Management, Kaliningrad State Technical University.

ROMAN SHESTAKOV
DEPUTY CEO, PROJECT DEVELOPMENT AND CONSTRUCTION

Appointed: 2009

Experience: Chief Engineer at Gold of Northern Urals, 2007-2009; pit superintendent 2006-2007. Mine superintendent at the Okhotsk Mining and Exploration Company, 2004-2005. Mining engineer in the Production and Technical Department of JSC Polymetal Management in the preceding two years.

Qualification: Honours degree in Open-pit Mining from the Mining Department of the St. Petersburg State Mining Institute. MBA from the UK's Open University Business School.

MAXIM NAZIMOK
CHIEF FINANCIAL OFFICER

Appointed: 2017

Experience: Previous roles in Polymetal: Chief Financial Controller, 2011-2015, and Finance Director of Polymetal, 2015-2016. Deputy Chief Financial Officer at Nomos Bank in 2011-2012, Director of Business Planning and Analysis since 2009. Head of Management and IFRS Reporting at MDM Bank, 2008-2009. Various financial positions at PricewaterhouseCoopers, 2003-2008.

Qualification: BA in Economics from St. Petersburg State University; graduated with distinction from the Executive MBA-Global Programme at London Business School and Columbia Business School. Fellow member of ACCA.

VALERY TSYPLAKOV
MANAGING DIRECTOR, POLYMETAL ENGINEERING

Appointed: 2004

Experience: Previous roles in Polymetal: Deputy General Director for Mineral Resources, Design and Technology and senior roles in the Production and Technology and Technological Research Departments, 2000-2004. Department Head at the Soviet Union Research Institute of Aeronautical Automation and, prior to this, a quest scientist at Aarhus University's Physics Institute (Denmark). Research Fellow in the Plasma Physics Department of the Moscow Physics and Engineering Institute. Professional Member of the Institute of Materials, Minerals & Mining (London).

Qualification: Degree in Experimental Nuclear Physics, Moscow Physics and Engineering Institute. PhD in Physics and Mathematics.

IGOR KAPSHUK
CHIEF LEGAL OFFICER

Appointed: 2015

Experience: Previously worked in Polymetal as Head of the Legal Department from 2005 and Deputy Head from 2003. Deputy General Counsel, Head of the Department for Legal Matters and Head of Claims Department at the branch of Siberia Energy Coal Company and at Vostsibugol (Irkutsk), 2001-2003. Legal advisor for Pharmasintez, 1999-2001. Legal advisor and acting Head of the Legal Department at the Irkutsk Tea-Packing Factory, 1997-1998. Legal advisor at an insurance company (Irkutsk), 1994-1997.

Qualification: Degree from the Law School of Irkutsk State University.

Board of Directors

Chairman
Bobby Godsell
N

Group CEO
Vitaly Nesis
S

New independent non-executive Directors from January 2018
Tracey Kerr
S N
Giacomo Baizini
A R

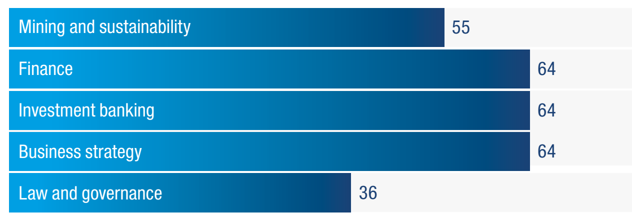
Non-executive Directors
Konstantin Yanakov
Jean-Pascal Duvieusart
Marina Grönberg
S

Independent non-executive Directors
Christine Coignard
A R N
Russell Skirrow
A S
Jonathan Best
A R
Leonard Homeniuk
R N S

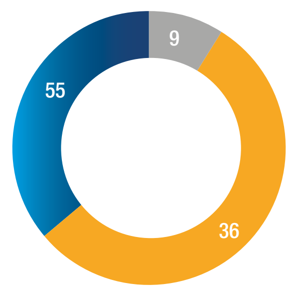
Committees

- A Audit and Risk Committee
- R Remuneration Committee
- N Nomination Committee
- S Safety and Sustainability Committee

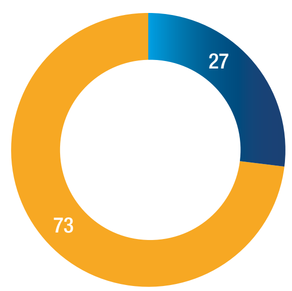
Board skills (%)



Board independence (%)



Board diversity (%)



Statement of compliance with the UK Corporate Governance Code

The Directors are committed to maintaining high standards of corporate governance. As a premium UK-listed company, during the year ended 31 December 2017, Polymetal International was required to comply with the UK Corporate Governance Code (the UK Code) – published in April 2016 and available through the UK Financial Reporting Council's website – or, where the provisions of the UK Code have not been complied with, to provide appropriate explanations. During 2017, the Company was in compliance with all provisions of the UK Code.

As well as complying with the UK Code, the Company has complied with all applicable regulations of the Moscow Stock Exchange and Russian securities laws since its shares were admitted for secondary trading on the Moscow Exchange.

Role and structure of the Board

In 2017, the Company started its Board succession programme in order to further enhance the Board's core skills in finance, mining and institutional investor engagement while adhering to best practice in corporate governance, including having a majority of independent directors. Polymetal started a phased refresh of its Board and appointed Spencer Stuart, an international search firm, to find further independent non-executive directors; two new Directors, Tracey Kerr and Giacomo Baizini were appointed on 1 January 2018. At the 2018 AGM, they will be offering themselves for election by the shareholders and at the same time two of the existing Directors, Russell Skirrow and Len Homeniuk will be stepping down having served on the Board approximately seven years since IPO. In addition, Ollie Oliveira will also stand for election at the 2018 AGM.

As of the date of this report, the Company's Board comprises the non-executive Chairman, one executive Director and nine non-executive Directors. Excluding the Chairman, six members of the Board are independent non-executive Directors. The graphic opposite shows the current structure of the Board and its Committees along with the status of each Director. Subject to shareholder approval, when Mr Oliveira joins the Board, he will become a member of the Audit and Risk, and Remuneration Committees and serve as a Senior Independent Non-Executive Director.

The independent non-executive Directors are those determined by the Board to be independent in character and judgement and to be free from relationships or circumstances which may affect or could appear to affect their judgement. The role of the independent Directors on the Board is to challenge the strategy and scrutinise the performance of management in meeting agreed goals and objectives, to monitor the reporting of the Company's performance, to review the integrity of financial information and ensure that the Company's internal financial controls and system of risk management are robust and defensible. They are responsible for determining the appropriate level of remuneration for the Group Chief Executive (Group CEO) and have a primary role in appointing and, when necessary, removing him.

Non-independent non-executive Directors include Mr Yanakov (who is a representative of Powerboom Investments Limited); Ms Grönberg (who is a representative of Vitalbond Limited) and Mr Duvieusart (who is a representative of PPF Group). Mr Nesis is the brother of the beneficial owner of Powerboom Investments Limited. Save for the potential conflicts inherent in these relationships, there are no potential conflicts of interest between the duties owed by the Directors or senior management to the Company and their private interests or other duties. The Company's corporate governance framework safeguards against any conflict of interest, including complete independence of the Audit and Risk, Nomination and Remuneration Committees and disclosure of any related party transactions in the financial statements.

Directors' interests are disclosed in annual declarations and the Company Secretary is notified promptly of any changes to those interests. Before each Board meeting, independent non-executive Directors reconfirm their independence and all Directors disclose whether they hold any interests in any matters to be reviewed at the Board meeting.

The Board has determined Jonathan Best, Christine Coignard, Leonard Homeniuk, Russell Skirrow, Tracey Kerr and Giacomo Baizini to be independent non-executive Directors. Bobby Godsell met the independence criteria on appointment.

Jonathan Best has been on the Board of the Company since September 2011 and on the Board of JSC Polymetal since December 2006, and his re-appointment is subject to particularly rigorous review. The Board believes that Mr Best continues to display all of the qualities of independence pursuant to the criteria set out in the Code.

The Company considers that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties and responsibilities effectively. All Directors have access to the advice and services of the Company Secretary, and are able to take independent professional advice, if necessary, at the Company's expense.

Board meetings

In 2017, the Board met seven times and had additional training sessions and informal discussions. Further business was approved by a Board Committee on three occasions.

The Board is responsible for:

Strategy – defining the commercial strategy and long-term objectives of the Group;

Expenditure – approving annual operating and capital expenditure budgets and any material changes to them;

Governance – overseeing the Group's operations, ensuring competent and prudent management, sound planning, a strong system of internal control, and compliance with all statutory and regulatory obligations;

Performance – reviewing the performance of the Group in the light of its business strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken;

Extension of Group activities – approving any material extension of the Group's activities into new businesses or geographic areas and any decision to cease to operate all or any material part of the Group's business; and

Stakeholders communication – ensuring a mutual understanding of objectives and maintaining a constructive dialogue with stakeholders; and promoting a healthy corporate culture.

The following Board discussions, linked to the Company's overall strategy, took place in 2017:

Pillars of value	Work of the Board in 2017
Pay significant and sustainable dividends through the cycle	Review of the annual budget Capital structure and dividend policy review Half-year and annual financial results Financing & investor relations update (including peer case studies)
Continue to grow our business without diluting its quality	Annual discussion of strategic considerations Komarovskoye status update Reserves and resources reporting assurance and exploration report

Strategic objectives	Board discussions
Deliver robust operating and financial performance at existing mines through cost control and reserve replacement	Quarterly review of the Company's production results, estimated production results for 2017 and production plan for 2018
Deliver medium-term growth through building and ramping up Kyzyl	Kyzyl status update
Build and advance long-term growth pipeline through opportunistic M&A and greenfield exploration	Acquisitions and projects: post factum analysis Nezhda, review and strategy update Evaluation of Prognoz project
Maintain high standards of corporate governance and sustainable development	Report on implementation of HSE plan for 2016 and HSE team work plan for 2017 Sustainability strategy: progress and plans Review of the Annual and Sustainability Reports Annual review of effectiveness of the Company's risk management and control systems Impact of base erosion and profit shifting (BEPS) framework on Polymetal Appointment of new Directors to the Board and its Committees Annual review of the schedule of matters reserved for the Board and terms of reference of the Board Committees Update of Group policies Annual internal evaluation of the Board and its Committees

The schedule of matters reserved to the Board is reviewed at least annually.

Roles of the Chairman, Group CEO and Senior Independent Director

The Board has approved the division of responsibilities between the Chairman and the Group CEO and defined the role of the Senior Independent Director (SID).

Chairman

The Chairman reports to the Board and is responsible for the leadership and overall effectiveness of the Board and for setting the Board's agenda. Mr Godsell is able to commit sufficient time to his role as non-executive Chairman of Polymetal International and the Board believes that other commitments do not adversely affect his contribution to the Company. Mr Godsell's other significant commitment is a non-executive directorship in the South African Industrial Development Corporation. He is also the Co-Chairman of the South African Millennium Labour Council.

Chairman's responsibilities include:

- effective running of the Board;
- ensuring that there is appropriate delegation of authority from the Board to executive management;
- promoting a culture of openness and debate by facilitating the effective contribution of non-executive Directors and ensuring constructive relations between executive and non-executive Directors;
- encouraging active engagement by all members of the Board and ensuring that the Directors receive accurate, timely and clear information; and
- ensuring that the views of the shareholders are communicated to the Board as a whole.

Senior Independent Director (SID)

Christine Coignard serves as a SID of Polymetal. In 2017, Ms Coignard attended a series of one-on-one meetings with institutional shareholders and investors, arranged as part of the Company's roadshow, and the investor events organised by the Company's brokers. The Board is regularly updated on shareholders' opinions following meetings with the Directors and management.

From AGM 2018, Mr Oliveira will replace Ms Coignard as Senior Independent Director.

SID's responsibilities include:

- being available to major shareholders in order to listen to their views and help develop a balanced understanding of their issues and concerns; and
- to act as an intermediary for the other Directors if necessary.

Group CEO

The Group CEO exercises his role through his executive and/or Director positions in the Group sub-holding companies. He reports to the Chairman and the Board directly and upholds the Group's responsibilities to its shareholders, customers, employees and other stakeholders. He is responsible for the management of the Group and for developing the Group's business strategy, objectives, budget and forecasts, and overseeing their successful implementation, once approved by the Board.

The Board interacts with management on a regular basis. Directors invite senior managers to attend relevant parts of Board and Committee meetings to report on agenda items and participate in discussion.

The Group CEO's responsibilities include:

- developing and proposing Group strategy, including communicating annual plans and commercial objectives to the Board;
- upholding the Group's responsibilities to its shareholders, customers, employees and other stakeholders;
- identifying and executing strategic opportunities;
- reviewing the operational performance and strategic direction of the Group;
- making recommendations on remuneration policies, executive remuneration and terms of employment for senior employees;
- ensuring that the development needs of senior management are identified and met;
- ensuring effective succession planning for senior management; and
- ensuring effective communication with shareholders and that appropriate, timely and accurate information is disclosed to the market, with issues escalated promptly to management and the Board.

Separate meetings are held between the non-executive Directors without the Chairman or the Group CEO being present; between non-executive Directors without the Chairman, led by the SID, to appraise his performance annually and on such other occasions as appropriate; and between the independent non-executive Directors without the other non-executive Directors being present. This includes both formal and informal meetings.

Board composition

Board member	Appointed	Executive	Non-executive	Independent	Audit and Risk Committee	Remuneration Committee	Nomination Committee	Safety and Sustainability Committee
Bobby Godsell	29 September 2011		✓				Chair	
Vitaly Nesis	29 September 2011	✓						Member
Jonathan Best	29 September 2011		✓	✓	Chair	Member		
Russell Skirrow	29 September 2011		✓	✓	Member			Member
Leonard Homeniuk	29 September 2011		✓	✓		Member	Member	Chair
Konstantin Yanakov	29 September 2011		✓					
Marina Grönberg	29 September 2011		✓					Member
Jean-Pascal Duvieusart	29 September 2011		✓					
Christine Coignard	1 July 2014		✓	✓	Member	Chair	Member	
Tracey Kerr	1 January 2018		✓	✓			Member	Member
Giacomo Baizini	1 January 2018		✓	✓	Member	Member		

Board and committee meeting attendance

Board member	Board meetings[1] (seven)	Audit and Risk Committee meetings[2] (six)	Remuneration Committee meetings[3] (four)	Nomination Committee meetings (three)	Safety and Sustainability Committee (six)
Bobby Godsell	6	NA	NA	all	NA
Vitaly Nesis	all	NA	NA	NA	5
Jonathan Best	all	all	all	NA	NA
Russell Skirrow	all	all	NA	NA	all
Leonard Homeniuk	all	NA	all	all	all
Konstantin Yanakov	all	NA	NA	NA	NA
Marina Grönberg	all	NA	NA	NA	all
Jean-Pascal Duvieusart	all	NA	NA	NA	NA
Christine Coignard	all	all	all	all	NA

1 Further business was approved by a Board Committee on three ocasions (by way of a conference call between Messrs Godsell and Best).
2 Further business conducted by the Audit and Risk Committee was approved by written resolution on five further occasions.
3 Further business conducted by the Remuneration Committee was approved by written resolution on two further occasions.

Constructive use of the Annual General Meeting

The Board uses the AGM to communicate with investors and to encourage their participation. To ensure the Company's shareholders have time to consider the Annual Report and Notice of the AGM and lodge their proxy votes in good time, all meeting materials are made available more than 20 working days prior to the AGM. Separate resolutions are proposed on each substantially separate subject and all resolutions are put to a poll. The Company also offers shareholders the option to abstain.

Shareholders who are not able to attend the AGM are encouraged to submit proxy votes either electronically or in paper format.

At the Company's 2017 AGM, we received votes representing approximately 69% of our issued share capital. The Company did not have a significant percentage of shareholders voting against any resolution.

The results of the proxy vote are presented at the AGM, with the final results announced via the London Stock Exchange and available on the website.

In addition, our AGM provides a valuable opportunity for shareholders to meet with and put questions to the Directors in person. The 2017 AGM was attended by the majority of Directors, including the Chairs of the Audit and Risk, Remuneration, Nomination and Safety and Sustainability Committees. The 2018 AGM of the Company will be held in London to enable easier participation of shareholders in the meeting.

The primary means of communication with the majority of our shareholders, who have not requested paper copies of our documentation, is through our corporate website: www.polymetalinternational.com.

Nomination Committee

The Nomination Committee is chaired by Mr Godsell and its other members are Mr Homeniuk and Ms Coignard. Tracey Kerr became a Committee member on 1 January 2018 and Mr Homeniuk will step down on 25 April 2018. The Committee has responsibility for making recommendations to the Board on the composition of the Board and its Committees, including appointments of additional and replacement Directors.

The Committee:

- leads the process for Board appointments and makes recommendations to the Board;
- regularly reviews the Board structure, size and composition (including skills, knowledge, independence, experience and diversity) and makes recommendations to the Board about any changes that the Committee considers necessary;
- considers plans and makes recommendations to the Board for orderly succession to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Company and on the Board and to ensure progressive refreshing of the Board, taking into account the challenges and opportunities facing the Company;
- keeps under review the leadership needs of the Group, both executive and non-executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- evaluates the balance of skills, knowledge, experience, independence and diversity of the Board before any appointment is made by the Board, and in the light of this evaluation prepares a description of the role and capabilities required for a particular appointment and the expected time commitment; and
- reviews the results of the Board's performance evaluation process that relates to the composition of the Board and whether non-executive Directors are spending enough time in discharging their duties.

There were three formal meetings of the Nomination Committee in 2017. At its meetings, the Committee:

- continued to review skills and experience of the Board, age and term limits of Directors, concept of independence; reviewed composition of the Board and its Committees;
- reviewed results of interviews with all directors and consider what skills would be required for the new independent non-executive Director appointments;
- led independent non-executive Director succession programme, which resulted in the appointment of three new independent non-executive Directors;
- supervised the start of the tailored induction process;
- continued succession discussion at executive level, including formalised Group CEO succession planning;
- made recommendations to the Board about the re-election of Directors at the 2017 AGM;
- reviewed the statement for the Annual Report about activities of the Committee;
- reviewed HR reports (including headcount, costs, diversity, professional development and Young Leaders Programme information, employment culture and approach to the learning process);
- reviewed diversity policy implementation, including equality audit;
- reviewed Committee's performance and its terms of reference; and
- approved working plan for the year.

The Nomination Committee acknowledges that a deep and rigorous approach to succession planning is vital for the Company's continuing success and ensures that leadership is fully aligned to corporate strategy, both at Board and senior management levels.

The Young Leaders Programme is now fully established and will continue in 2018; this programme helps to evaluate the talent pool and tailors training for the future senior management needs of the Group. As part of this programme, meetings take place between young leaders and Board members so that the Board has a chance to challenge the leaders and debate with them and the leaders can ask questions and interact directly with the Board. One-third of the programme participants in 2017 were women. Following the meeting, feedback is provided by both the Directors and young leaders and a follow up plan is put in place.

In 2017, the Directors and young leaders had in-depth discussion about corporate culture, including recognition of the value of culture, leadership, openness and accountability, integration, assessment, measurement and engagement, and alignment of values and incentives. The key areas identified by young leaders in achieving a strong corporate culture were openness at all levels, honesty, transparency, willingness to be engaged in a dialogue, hunger for innovation. Accountability at all levels, starting from the Board of Directors and throughout the Company down to individual employees, was noted as a key to the successful implementation of a corporate culture. Young leaders outlined the key corporate values of the Company and identified indicators of them being used, summarising that supporting and encouraging of behaviours that correspond to these values was the most important. The most effective way to transfer corporate values was through the employees, who accept and share these values, both at work and in their everyday lives.

Training opportunities for all of the Group's employees continue to be monitored. Employee feedback systems and grievance handling procedures operate at all the Group companies.

The Board welcomes diversity at all levels; it believes that the right way to approach diversity is by putting competence first and seeking the right qualities for each and every appointment. Diversity becomes a distinct advantage with such an approach and is in line with the Company's objective of promoting women at all levels of the Group. The Company facilitates promotion of women within its offices and operations, including hiring women in positions traditionally held by men. In 2017, the proportion of women working in the Group remained stable: 21% (2016: 21%); women represent 22% of senior management positions (2016: 22%); and 42% of employees with vocational training or higher education (2016: 42%). Women representation at the Board level was 22% (2016: 22%) but with the recent appointment of Ms Kerr has increased to 27%.

Regular monitoring of compliance in relation to the Diversity Policy is undertaken by the HR department, which also ensures that our internal procedures are implemented through all Group companies.

The Nomination Committee closely monitors the efforts of management in increasing diversity, paying special attention to more recent acquisitions in areas with a traditional male workforce. Further information on our steps to promote diversity in the Company is outlined in the Safety and Sustainability Report.

No instances of discrimination towards the Group's employees have been reported. All candidates and employees have equal opportunities regardless of gender, age, race, nationality, language, origin, wealth, residence, religion and other beliefs, social membership or other personal circumstances. The Company's Code of Conduct and Policy on Staff and Management Diversity outline the principles and approach to diversity and prohibit any discrimination. The Group is also in full compliance with all local legislation in the countries where it operates that prohibits any discrimination in payment and promotion.

Full terms of reference of the Nomination Committee are available on the Company's website: www.polymetalinternational.com.

The Board considers that the composition of the Board and the Nomination Committee complies with the requirements of the UK Code.

Board evaluation

The first externally facilitated Board evaluation took place in 2013. In accordance with corporate governance best practices, Polymetal carried out an externally facilitated Board evaluation in 2016. Fidelio Partners, an independent Board Development and Executive Search consultancy, conducted the evaluation. The purpose of the evaluation was an in-depth review of Board effectiveness. The evaluation covered a number of aspects relating to the work of the Board and also provided suggestions and recommendations to further enhance Board effectiveness.

Based on interviews with Board members and the review of various materials, Fidelio concluded that the Polymetal Board is aware of its duties, it demonstrates a strong commitment to good governance and best practice. The Board recognised the importance of the UK Code. The Chairman was considered to be skilled and effective in leading the Board and Board meetings; Board Directors were recognised as well prepared; and there was a general trend of improved reporting to the Board.

Fidelio highlighted several themes arising from the Board evaluation. These themes were forward-looking and provided a focal point for the Board as it considers greater Board effectiveness; recommendations and suggestions for the Board's consideration were provided. Fidelio facilitated a discussion with all Board members summarising the evaluation and focusing on the themes for enhancing Board effectiveness. The Board discussed the evaluation and its findings in individual Committees and also at subsequent Board meetings.

In 2017, the Board took steps to implement key recommendations from the external evaluation conducted by Fidelio in 2016. These are set out below. The Board and Committees conducted an informal internal evaluation in 2017.

Areas for Board focus	Next steps for discussion	Actions in 2017
Polymetal's distinctive position – implications for the Board The Company operates in the emerging markets of the former Soviet Union with strong shareholder base in Europe and London premium listing.	More cohesive understanding of Board engagement and rounded understanding of views of all shareholders. Given Polymetal's London listing, the Board recognised that not having a UK/London based Board Member was a disadvantage. This addition to the Board could provide a greater awareness of how the investment community is thinking and also connectivity to key governance debates taking place in the UK.	As part of succession planning, the following appointments were made: Mr Baizini. He has experience working in both Western and Eastern companies and is fluent in Russian. Ms Kerr. She is London-based and has 30 years' experience in the international mining industry, including safety and sustainability. Mr Oliveira. He has over 16 years of experience in engaging with London-based institutional investors, including in the role of senior independent director of a large mining company. Directors are regularly updated on investor feedback from the roadshows by the Group CEO and senior management.
The challenge of succession Recognised pressure for forthcoming Board refreshment, and importantly that Polymetal's strong Group CEO would be difficult to replace.	The Nomination Committee has a good grasp of the views of institutional shareholders and proxy advisors, particularly ahead of Board refreshment. Skills review required today and experience that would be needed going forward. Considering Board refreshment and creating succession pipeline. The strength of the Group CEO is seen as a major asset for Polymetal and this is recognised by investors and by the Board as a whole.	The Board and senior management actively engaged with the shareholders on Board succession. Comprehensive Directors' skills review was performed by the Nomination Committee, which included individual interviews with Directors. Three new non-executive Directors will offer themselves for election at the AGM 2018 and two non-executive Directors will step down. While there is no imminent Group CEO retention risk, the Board recognises its responsibility to investors to ensure structured succession planning.
Safety first Aim to achieve zero fatalities.	The Board has clear concern regarding the level of fatalities and monitors the investigation process as well as the follow up safety measures. Ensure clear communication between the Board and Safety and Sustainability Committee with focus on milestones and key initiatives.	The Safety and Sustainability Committee continues to oversee and support the work of the Executive team in reducing fatalities through establishing safety culture. An annual plan for the Committee's work has been drawn up in accordance with its terms of reference, internal processes and the relevant market practice. Ms Kerr joined the Committee as its member and subject to her being elected as a Director at the 2018 AGM, she will become the Chair of the Committee, bringing a wealth of relevant experience to the role.

Fidelio's relationship with Polymetal focused only on Board effectiveness; Fidelio has not provided recruitment, search or other advisory services to Polymetal.

In 2017, the Board and its Committees conducted informal internal evaluation.

Re-election policies

In accordance with the UK Code, all Directors are subject to annual re-election. Full terms and conditions of the appointment of non-executive Directors are available for inspection at the Company's registered office.

The Directors' biographical details are set out on pages 78-79. Following their performance evaluations, the Board and Chairman consider that each of the Directors standing for election or re-election will continue to be an effective contributor to the Group's success and demonstrates commitment to his or her role. The Board believes that the Chairman continues to be effective and to demonstrate commitment to his role.

Induction

To provide a thorough induction to new Board members, an induction data base has been generated and contained information about the Company, its current Board and Committee members, sector market update, corporate documents and Group policies. The Directors were also updated on the corporate governance rules and practices including those related to their role as non-executive Directors. As part of the induction process new Directors familiarised themselves with the Board and Committee meetings and site visits arrangements, along with existing remuneration and compensation procedures, Board and Committee meetings schedules and external training options for the next year. The results of the Board and Committees evaluation, D&O insurance policy, AGM results, as well as Company's annual, interim and quarterly reports and sustainability reports have also been added to the induction data base to allow candidates to fully understand the Company's and Board's activities.

Committee member induction included familiarising new Directors with associated policies, committee terms of references and relevant guidance on best practice.

In addition to the data base, induction meetings were arranged, where new Directors could discuss appropriate issues with the fellow Directors and Committee members, Group CEO and the Executive team. Induction meetings took place at the beginning of 2018.

Access to all previous meeting materials and Board and Committee minutes has been provided upon appointment.

Directors and Chairs of the Board Committees regularly receive updates on changes to corporate governance and regulatory requirements and other changes affecting the Company. The Board is kept informed of relevant developments in the Company by way of monthly management reports, including comprehensive information on operating and financial performance, and the progress of capital projects.

Board site visits

Annual site visits greatly improve the Board's understanding of Polymetal's operations and organisation, and contribute to the Board's evaluation of the Group's business plan and strategy. On a three-day visit to the Company's operations in Armenia during 2017, the Board of Directors gained valuable first-hand insights into local management, challenges and opportunities. They met with key mine executives and employees, and were given a detailed tour of production facilities at the Kapan mine, including a visit to the underground operations. During 2016, the Board visited Company's operations in Northern Urals, Russia, including the Voro mine, and North Kaluga exploration project. Since the IPO the Direcotrs have visited all key operations of the Company.

AUDIT AND RISK COMMITTEE REPORT

> "Polymetal's resilient operating and financial performance owes a great deal to the disciplined commitment to sound risk management and robust internal controls across the business."

Dear Shareholders

It is a given that both the precious metals market and the economies in which Polymetal operates are subject to volatility and sometimes significant shifts in commodity prices and exchange rates. However, the Audit and Risk Committee continues to focus on ensuring that the business has sound risk management and robust internal controls in place to adjust our exposure to these macroeconomic variables, as well as for changes in the regulatory and accounting frameworks.

Performance evaluation and development

In 2017, we conducted an in-depth self-evaluation of the performance of the Committee, inviting input from the many parties with which we interact. While all parties agreed that in general the work of the Committee is effective, certain areas of focus and further development were identified. During the year a great deal of time was spent addressing these – we have already made certain improvements on issues raised and the few remaining outstanding matters have been factored into our work plan for 2018.

As a Committee, we should also evolve and develop so I am delighted to announce that Giacomo Baizini was appointed as a Committee member on 1 January 2018. His strong financial background and experience in our industry and of the Russian market will be a real asset. In addition, Ollie Oliveira will stand for election at the 2018 AGM. Existing Committee member, Russell Skirrow, will not be offering himself for re-election, having served on the Board for approximatly seven years since the IPO and I would like to thank him for the valuable contribution he has made.

Effective, independent working relationships

Of course, our effectiveness places great reliance on the excellent work and commitment of the internal audit and risk functions, which are promoting risk awareness and understanding of its impacts at all levels. Their particular focus this year (and ongoing) has as a consequence of the self evaluation exercise been the strengthening of the Group internal audit function and the quality of its reporting to and interaction with the Committee, with significant achievements already made.

The Audit and Risk Committee has to be prepared to take a robust stand on matters concerning the Company's governance. We enjoy a frank and open working relationship with Polymetal's Chairman, Group CEO, Chief Financial Officer, the external lead audit partner and head of internal audit – all key players in upholding good standards of corporate governance across the business. This and a high level of mutual respect on both sides enables us to address and deal effectively with any issues should they arise.

The Audit and Risk Committee is a fully independent body, consisting only of independent non-executive Directors with relevant skills and experience in financial reporting and risk management.

In 2017, the Audit and Risk Committee met six times with further business conducted by the Committee and approved by written resolution on five additional occasions. The Committee also held a joint meeting with the Safety and Sustainability Committee for an in-depth review of environmental and safety risks and of the results of the internal audit.

Our focus during 2017

The Audit and Risk Committee dealt with the following matters:

- reviewed and recommended for approval financial and risk information included in the Annual Report 2016;
- reviewed and recommended for approval Polymetal's results for the six months to 30 June 2017;
- supervised preparation of the longer-term viability statement for the Company for 2017;
- supervised compliance with the Company's anti-bribery and corruption, and whistleblowing policies and procedures;
- approved significant transactions;
- approved the terms of external audit engagement, including the scope of the audit and the Group's external audit plan, and recommended for approval the interim and year-end audit fees;
- reviewed the actual external audit fee in 2017 compared with the authorised amount;
- reviewed the independence and effectiveness of the external auditor;
- recommended the re-appointment of Deloitte LLP as external auditor;
- reviewed the critical risks and exposures of the Group, including significant judgements, impairments and tax risks;
- reviewed the Group's internal audit plan, internal audit charter and monitored the effectiveness of internal audit function;
- performed an in-depth analysis of some of the Company's main risks and jointly reviewed the environmental and safety risks and results of the internal audit with the Safety and Sustainability Committee;
- reviewed the capability of the Group's finance team;
- performed an extended internal assessment of the Committee's effectiveness and adopted an action plan for the areas that need enhancement or further development;
- closely monitored developments in cyber security threats and the management of cyber and information governance processes, recommended and reviewed external cyber risk evaluation carried out at the beginning of 2018. The Company does not consider cyber risk to be a principal risk for the Group;
- discussed and approved the Committee work plan; and
- reviewed corporate governance changes and planned for continued compliance in 2018.

Polymetal is committed to objectivity and transparency in its approach to corporate governance, which is also reflected in the integrity of our financial statements. By instilling a disciplined focus on consistent quality throughout our reporting, internal control and risk management processes across the business, we have resilient systems and processes in place that enable the Committee to successfully deal with the issues presented by market unpredictability and changes in legislation.

Jonathan Best
Chair, Audit and Risk Committee

Audit and Risk Committee

The Audit and Risk Committee is chaired by Mr Best and its other members are Mr Skirrow and Ms Coignard, all independent non-executive Directors. In the reporting period, all members of the Committee had relevant financial experience and competence relevant to the sector in which the Company is operating; Mr Best has competence in accounting (refer to page 77 for details). Mr Baizini became a member of the Committee on 1 January 2018 and Mr Oliveira will be joining the Committee, following his appointment at the 2018 AGM. Mr Skirrow will not be offering himself for re-election at the 2018 AGM. Ms Coignard is Chair and Mr Best is a member of the Remuneration Committee, which ensures continuity between the workings of both Committees.

The responsibilities of the Audit and Risk Committee comprise:

- monitoring the integrity of the Group's consolidated financial statements and reviewing its annual and interim financial statements, including, but not limited to the consistency of and any changes to, accounting and treasury policies across the Company and the Group; the methods used to account for significant or unusual transactions; the reasonableness of significant estimates and judgements, taking into account the views of the external auditor; and the clarity and completeness of disclosure in the consolidated financial statements;
- considering and making recommendations to the Board, in relation to the appointment, re-appointment, resignation or removal of the Group's external auditor, for consideration by the shareholders at the AGM;
- overseeing the Group's relationship with its external auditor and reviewing the effectiveness of the external audit process, taking into account relevant UK professional and regulatory requirements; the Committee meets with the external auditor at least once a year, without management being present, to discuss their remit and any issues arising from the audit;
- reviewing the independence and objectivity of the external auditor and the appropriateness of the provision of any non-audit services by the external auditor, taking into account existing policies and procedures, as well as professional and regulatory requirements;
- reviewing the effectiveness of the Group's system of internal controls and risk management systems and ensuring shareholders' interests are properly protected in relation to financial reporting and internal control;
- monitoring and reviewing the effectiveness of the Group's internal audit function in the context of the Group's overall risk management system;
- reviewing the Group's policies and procedures for preventing and detecting fraud, the systems and controls in place for preventing bribery, and its policies for ensuring that the Group complies with relevant regulatory and legal requirements; and
- approving significant transactions.

Full terms of reference of the Audit and Risk Committee are available on the Company's website: www.polymetalinternational.com.

Ultimate responsibility for reviewing and approving the interim and annual financial statements remains with the Board.

The Committee gives due consideration to applicable laws and regulations, the provisions of the UK Code and the requirements of the Listing Rules.

AUDIT AND RISK COMMITTEE REPORT

Focus during 2017

During this year, the Audit and Risk Committee focused on:

- evaluating the recoverability of goodwill and operating and development assets. The Committee examined the potential indicators of impairment (or impairment reversal, where appropriate) for each of the cash-generating units (CGUs) and the life-of-mine financial models used for assessing the fair value less costs to sell of the individual CGUs tested for impairment. The Committee examined and challenged the commodity price, discount rate and exchange rate assumptions used by management in its impairment tests;
- evaluating the recoverability of metal inventories. The Committee examined the price assumptions used by management as well as unit costs and other internal assumptions used in determining the net realisable value of unfinished goods within metal inventories (ore and concentrate stockpiles);
- evaluating the recoverability of exploration and evaluation assets. The Committee assessed management's approach to determine whether the existing exploration and evaluation assets are likely to generate future economic benefits and whether any indicators of impairment had been identified;
- reviewing tax exposures. The Committee evaluated management's assessment of various tax risks and appropriateness of provisions made in the financial statements, where applicable;
- internal controls and the risk of misstatement. The Committee reviewed reporting from internal audit in respect of its audit plan and discussed all significant findings as well as key controls for major financial reporting areas, and performed an in-depth review of one of the operations (Varvara) prepared by the internal control department;
- reviewing the capital structure decisions and dividend policy; and
- reviewing the longer-term viability statement, including the process and assessment of the Group's prospects made by management, basis of preparation and the results of risk scenario analysis.

The Chair of the Audit and Risk Committee makes himself available to major institutional shareholders annually to discuss the Company's annual reporting to shareholders as part of the Company's investor days. He is also available for one-on-one meetings with key shareholders at their request.

Following the assessment of the Committee's performance during the Board external evaluation in 2016, no threats to the effectiveness of the Committee were identified. At the same time, fellow Directors reported a high level of satisfaction with the Audit Committee.

In 2017, the Committee carried out a self-evaluation of its performance. The members of the Committee, CFO, external audit partner and head of internal audit completed a thorough assessment questionnaire on the work of the Audit and Risk Committee and other related issues, including external audit and the quality, experience and expertise of the internal audit function. Based on the assessment results, the areas that needed attention were aggregated and followed up by appropriate actions in 2017, including a Committee renewal programme, additional management reporting, internal audit department staffing review and a more in-depth understanding of the scope of external audit. Outstanding issues have been included in the 2018 Committee work plan.

The Board considers that the Audit and Risk Committee complies with the provisions of the UK Code, FRC Guidance on Audit Committees and Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

External auditor appointment

The re-appointment of Deloitte LLP as the Group's external auditor is reviewed annually by the Audit and Risk Committee. Deloitte LLP was appointed auditor in 2011, with Deloitte CIS having been auditor of JSC Polymetal since the last tendering process in 2007. The Group has a policy of tendering the external audit at least every ten years. The Committee's assessment of the external auditor's performance and independence underpins its recommendation to the Board to propose to shareholders the re-appointment of Deloitte LLP as auditor until the conclusion of the AGM in 2019. Resolutions to authorise the Board to re-appoint and determine the auditor's remuneration will be proposed at the AGM on 25 April 2018.

We intend to tender our external audit in 2019 for the 2020 audit, which will coincide with the completion of the five-year term of our current audit partner. At that point, Deloitte LLP will have been our auditor for 10 years, following our listing on the London Stock Exchange. It is our intention that Deloitte will be invited to participate in this tender process, along with other appropriately qualified international audit firms. The Company is in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation Order 2014.

Non-audit services by the external auditors

The Audit and Risk Committee monitors the Company's relationship with its external auditor relating to the provision of non-audit services to ensure that auditor objectivity and independence are safeguarded. This is achieved by disclosure of the extent and nature of non-audit services (see Note 14 to the consolidated financial statements) and the prohibition of selected services being provided by the external auditor.

Following the introduction of new EU Audit legislation and changes to the UK Ethical Standard, which introduced new restrictions and prohibitions on non-audit services to the Public Interest Entities incorporated in the European Economic Area (EEA PIEs), the Audit Committee has chosen to voluntarily apply the new requirements as if Polymetal was a EEA PIE. The policy governing the provision of non-audit services by the external auditor approved by the Committee defines permitted audit and non-audit services.

Pre-approval thresholds are in place for the provision of non-audit services by the external auditor, being: pre-approval by the Chief Financial Officer of JSC Polymetal if the services are provided to a Russian entity, Chief Financial Officers of Kazakh or Armenian business entities respectively, and by the Director of the Cyprus office of Polymetal International plc if the services are provided to other Group companies if below US$5,000; by the Chair of the Audit and Risk Committee if between US$5,000 and US$20,000; and by the Audit and Risk Committee if above US$20,000.

Certain permitted types of non-audit work may be undertaken by the auditor without prior referral to the Audit and Risk Committee up to a cumulative annual value of US$100,000. Any further non-audit work is subject to approval by the Audit and Risk Committee in further tranches of US$100,000. In the event that the cumulative value of non-audit fees exceeds US$500,000 in any given year, separate approval by the Audit and Risk Committee is required explaining why there is no threat to independence.

In 2017, non-audit fees were US$0.44 million of which US$0.42 million were incurred for audit-related assurance services for the Group's half-year review. Non-audit fees represented 38% of the 2017 audit fee (2016: 40%). Non-audit fees excluding audit-related services amounted to US$0.01 million, or 1% (2016: 2%) of total fees for audit and audit-related services.

The Audit and Risk Committee has considered information pertaining to the balance between fees for audit and non-audit work for the Group in 2017, and concluded that the nature and extent of non-audit services provided do not present a threat to the external auditor's objectivity or independence.

Auditor independence

The auditors are required each year to confirm in writing to the Committee that they have complied with the independence rules of their profession and regulations governing independence, and that they have complied with the requirements of the Company's policy on provision of non-audit services. The external auditor is required to maintain appropriate records to provide reasonable assurance that its independence from the Company is not impaired.

A copy of the Policy on Independence and the Provision of Non-Audit Services is available on the Company's website: www.polymetalinternational.com.

Review of the effectiveness of the external audit process and audit quality

The Audit and Risk Committee has adopted a formal framework in its review of the effectiveness of the external audit process and audit quality which focuses on the following areas:

- the audit partners, with particular focus on the lead audit engagement partner. The Company has been working with the existing audit partner since 2015;
- the audit team;
- planning and scope of the audit and identification of areas of audit risk;
- execution of the audit;
- the role of management in an effective audit process;
- communications by the auditor with the Audit and Risk Committee, and how the auditor supports the work of the Audit and Risk Committee;
- how the audit contributes insights and adds value; and
- the independence and objectivity of the audit firm and the quality of the formal audit report to shareholders.

An auditor assessment is completed annually by each member of the Audit and Risk Committee and by the CFO. Feedback is also sought from the Group CEO, other members of the finance team, divisional management and the head of internal audit.

The assessment tool adopted is comprehensive and includes detailed questions which are completed by way of a formal questionnaire every three years, while the key areas are reviewed every year. The feedback from this process is considered by the Audit and Risk Committee, and is provided both to the auditor and to management. Action plans arising are also reviewed by the Committee. The most recent comprehensive audit quality evaluation was performed in March 2017.

The effectiveness of management in the external audit process is assessed principally in relation to the timely identification and resolution of areas of accounting judgement, the quality and timeliness of papers analysing those judgements, management's approach to the value of the independent audit, the booking of audit adjustments arising (if any) and the timely provision of draft public documents for review by the auditor and the Audit and Risk Committee.

Risk management and internal control

Risk management is the responsibility of the Board and is integral to the achievement of Group's strategic objectives. The Board considered the Group's management responsiveness to changes within its business environment. The Board is satisfied that there is an ongoing process, which was operational during the year, and up to the date of approval of the Annual Report, for identifying, evaluating and managing the principle risks faced by the Group.

The Board also takes account of material changes and trends in the risk profile and considers whether the control system, including reporting, adequately supports the Board in achieving its risk management objectives.

The Group enforces a responsible business culture throughout all Group entities to mitigate principle risks and to keep residual risk at an acceptable level. The Audit and Risk Committee assists the Board with its assessment of the Group's principal risks and its review of the effectiveness of the risk management process. The Committee reviews reports on the status of Group-level risk profiles and controls in place during its meetings throughout the year.

The Company aims to ensure that all the components of its risk management system are embedded into day-to-day operations so that all principal risks are identified and managed on a timely and accurate basis. The process for identification and assessment of principal risks combines a top-down and bottom-up approach. The Group has implemented enterprise and operational policies and controls to manage risks that may affect achievement of the Group's strategic objectives. Transaction-level internal controls are designed to enhance the value of operational-level objectives and accountability of new projects and initiatives.

In conducting its annual review of the effectiveness of risk management and internal control system (including financial, operating and compliance controls), the Board considers the key findings from the ongoing monitoring and reporting processes, management representations and independent assurance reports.

Internal audit

The internal audit function supports Directors, through the Audit and Risk Committee, with an objective evaluation of the Company's and the Group's governance framework. The internal audit function also aims to raise levels of understanding and awareness of risk and control throughout the Group.

The head of internal audit reports to the Group CEO and, through the Audit and Risk Committee, to the Board of Directors. The internal audit function additionally reports its findings to members of the Group's executive management.

The internal audit function's annual work plan is approved by the Audit and Risk Committee. It is based on a risk tolerance evaluation that ensures the achievement of Group's operating objectives and focuses on the principle risks of Group's risk profile.

In addition to the Audit and Risk Committee assessment, the internal audit function uses an annual self-certification process, which requires managers throughout the Group to personally confirm the testing of internal controls and compliance with Group policies within their business or function, as well as the steps taken to address actual or potential issues that are identified. The internal audit function also performs periodic external certification, the most recent of which took place in February 2016.

Management provides a timely response to issues raised by internal audit. Where possible, the issues are resolved within one reporting period. The results of the self-certification as well as management response thereto are provided to the Committee along with other reports on the internal audit activities.

Internal control framework and activities

The management structure of the Group and internal policies and procedures are aimed at maintaining a robust control framework within the Group encourage the achievement of strategic objectives within the set risk tolerance levels.

This framework includes:

- an appropriate tone set from the top (Board level), aimed at building the appropriate control environment and ethical climate;
- management support of a comprehensive risk management system (for more detail please refer to pages 68-74);
- strong segregation of duties including internal controls over sensitive transactions;
- specific control activities implemented at all levels of the Group; and
- a periodic review of the effectiveness of internal controls.

The governance framework reflects the specific structure and management of the Group, where authority and control are delegated by the Board to different levels, from senior management to the managers of the Group's operating entities and then cascaded down to business and project managers as appropriate.

Within this framework, authority is delegated with clearly prescribed limits and decisions are escalated where either project size or risk profile require a higher level of authority. In addition to controls operating at transaction level (production, exploration, construction, procurement), the control framework also includes a set of general procedures for transaction approval, financial accounting, reporting and budgeting – see details on the next page.

The Board confirms that the actions it considers necessary have been or are being taken to remedy any failings or weaknesses in the Group's system of internal controls. This has involved considering the matters reported to it and developing plans and programmes that it believes are reasonable in the circumstances. Based on the results of the review of risk management and internal control activities undertaken by the Board and the Audit and Risk Committee, the Board considers that the risk management and internal control systems are in accordance with the relevant principles and provisions of the UK Code and other applicable guidance.

Financial reporting systems

The quality of financial accounting and reporting is ensured through a set of control procedures in the following areas: accounting methodology, preliminary review of new transactions, documentation, accounting techniques and financial closing procedures. Accounting policies are developed centrally for each of the Group's subsidiaries and are adapted for the specifics of each entity and Group-wide policies. Employees responsible for accounting and reporting functions have powers to review upcoming transactions and propose adjustments, where necessary, to ensure proper accounting and tax treatments. The use of a centralised Enterprise Resource Planning (ERP) system in all major Group companies ensures the unification of the business and accounting processes. The Group implements a multi-level set of controls over financial and accounting data recorded in the system. These controls involve the accounting department of each subsidiary, senior management of the subsidiary and controls at the relevant headquarters level. In addition, the accounting and reporting data are regularly audited by internal and external auditors.

Procedures for approval of capital and current expenditures

The Group prepares annual operating and capital expenditure budgets based on its current and strategic goals and objectives.

In addition to periodic control of actual versus budgeted financial performance, a procedure of ongoing control and authorisation of expenses is in place. The current system of pre-approval of significant transactions, along with accounting procedures in the ERP system, achieves a level of control over the amount and appropriateness of expenses.

Treasury operations

The Group operates a centralised treasury function, which is responsible for payments on behalf of all operating subsidiaries of the Group. Use of this centralised system achieves the best level of control over the payments function without compromising the speed and reliability of payments.

All transactions with banks on accounts maintenance, deposits and borrowings and foreign currency transactions are also performed at relevant headquarters level in compliance with the treasury policy approved by the Board.

Controls over IT systems used in financial accounting and reporting

The Group uses a 1C:Enterprise 8 ERP system for the automation of everyday enterprise activities. These include various business tasks within economic and management functions, such as management accounting, business accounting, HR management, supplier relationship management (SRM) and material requirements planning (MRP). The Group also uses the ERP system for budgeting, accounting, HR record-keeping and payroll, supply chain management, operational reporting and procurement.

The Group operates an IT management framework based on COBIT (Control Objectives for Information and Related Technology), which provides a complete set of high-level requirements to be considered for effective control of each IT process. At the beginning of 2018, an external audit of the IT controls was carried out, and no critical weaknesses of the control system and procedures were reviealed. The external audit was carried out by an independent Center for Cyber Security, Jet Infosystem. No other services were provided by Jet Infosystem.

UK Bribery Act 2010

The Company and its Directors are committed to ensuring adherence to the highest legal and ethical standards. This is reflected in every aspect of the way the Group operates. Bribery is a criminal offence in the countries in which the Group operates. Corrupt acts expose the Group and its employees to the risk of prosecution, fines and imprisonment, as well as endangering the Company's reputation. The Group has a Code of Conduct in place, which refers to its Anti-Bribery and Corruption Policy.

The policy extends across all of the Group's business dealings in all countries and territories in which the Group operates and applies to Directors, managers and all employees of the Group, as well as relevant business partners and other relevant individuals and entities.

The Board attaches the utmost importance to this policy and applies a zero-tolerance approach to acts of bribery and corruption by any of the Group's employees or by business partners working on the Group's behalf. The policy prohibits the payment, offer or authorisation of bribes, the receipt or acceptance of a bribe, or the payment, offer or promise to pay any facilitating payments. Any breach of this policy is regarded as a serious matter by the Company and is likely to result in disciplinary action.

As part of implementation of internal procedures to comply with the UK Bribery Act, the Group has a formalised Whistle-Blowing Policy which defines the processes in place for staff to communicate, in confidence, concerns about possible improprieties, unethical or illegal activities and ensures that arrangements are in place for the independent investigation of such matters.

The Company affirms that it has not denied any personnel access to the Audit and Risk Committee and that it has provided protection to whistle-blowers from adverse personnel action.

All policies and procedures on prevention of bribery and corruption are annually reviewed by the Audit and Risk Committee for any changes required to be recommended to the Board. The management reports to the Committee on the implementation of policies and procedures within the Group's operations are reviewed on a regular basis as well.

The Code of Conduct, Anti-Bribery and Corruption Policy and the Whistle-Blowing Policy are available on the Company's website: www.polymetalinternational.com.

Jonathan Best
Chair, Audit and Risk Committee

REMUNERATION REPORT

> "Throughout the company we aim at rewarding our people fairly in line with the Company's strategic, operational and financial objectives in creating long-term sustainable stakeholders' value."

Dear Shareholders

Following the extensive review of our Remuneration Policy in 2016, we are delighted that 99.10% of shareholders approved the Company's revised Remuneration Policy at the 2017 Annual General Meeting, which applies for a period of three years until May 2020. Our Remuneration Report detailing remuneration outcomes for 2016 also received strong support from 99.63% of shareholders.

As outlined in the Chairman's Statement and reported in more detail in the Group CEO's Review, Polymetal maintained its track record of solid operational delivery and project execution, meeting our increased production guidance for the sixth consecutive year. Over recent years, our management team further consolidated and improved the performance of existing assets and increased the resource base through exploration and acquisitions. This has led to good free cash flow generation, as reflected in the significant dividends of US$1,048 million paid to our shareholders since the IPO in 2011. At the year end, Polymetal had delivered a 4.4% dividend yield on a three-year average basis.

At the same time, the Company continues to meet the increasingly demanding requirements of a London premium-listed company, in terms of environmental, social and governance matters. Some 70 separate KPI metrics are included in the variable part of remuneration at all levels of the organisation to reward those employees who are able make a difference. Polymetal is included in the FTSE4Good, STOXX Global ESG Leaders and Euronext-Vigeo indices and supports the Carbon Disclosure Project as well as the UN Global Compact and Global Reporting Initiative.

Our ability to retain employees at all levels of the organisation remains high, despite strong competition for talent in our industry and regions of operation. The Company's commitment to the highest ethical standards, its operational excellence and implementation of international best practice is reflected in our staff turnover, that has been steadily reducing over the last seven years and was 5.4% in 2017.

In our 2017 Remuneration Report, we outline how the Committee supervised implementation of the approved Remuneration Policy, including planned base-salary increases, annual bonuses and the grant of performance shares. The Company performed well on all metrics and this was reflected in the Group CEO's remuneration. The Committee applied no discretion in its decision.

Taking into consideration the key conclusions of the extensive external Board review undertaken in 2016, the Committee performed its own comprehensive effectiveness review in 2017, including refining the Committee's priorities. As a FTSE 250 company listed on the London Stock Exchange, our forward-looking action plan includes measures to ensure that we stay on top of the increasingly complex and rapidly changing regulatory framework on remuneration matters. We are also working jointly with other Committees, largely in reviewing KPIs and general pay structure (the Safety and Sustainability Committee) as well as gender pay as part of the new broader gender agenda (the Nomination Committee).

Remuneration principles and strategy

Our remuneration policy is underpinned by the Company's strategy and is result-oriented. We aim to develop and operate in a safe and sustainable manner across high-grade mines in selected geographies within the CIS and to generate free cash flow in order to pay substantial and sustainable dividends. To achieve this, we have developed a competitive advantage with our hub-based system and refractory ore processing as well as applying a strict capital and project management discipline throughout the Group.

Our Employment Policy is aligned with our strategy, as it calls for responsible behaviour and personal accountability, as well as a commitment to best practice in all matters and at all levels of the organisation. Our general approach is to motivate and compensate employees fairly and competitively for their contribution to the business and to promote an open, positive and co-operative attitude in the workplace.

In making remuneration decisions, the Committee considers both the performance of the Company and the current environment surrounding executive pay, where there is a clear expectation of shareholder alignment and appropriate pay for performance.

Remuneration structure

Alignment with our corporate strategy is taken into consideration in all components of our remuneration structure which is based on a healthy balance between fixed and variable pay, use of the KPIs tailored to key strategic objectives, as well as the strict vesting conditions of our Performance Share Plan and substantial minimum shareholding requirements.

The remuneration of Mr Nesis, Group CEO and the only Executive Director on the Board, includes a simple and clearly defined KPI-component, derived from top-level strategic goals, encompassing operating and financial metrics that he can influence. In the same way the KPI structure for all our senior managers and key employees is tailored for individual responsibilities and performance. To reflect the aim of zero fatalities at our operations, the bonus calculation system for the Group CEO, some senior managers and mine management has a major focus on health and safety KPIs, adjusting bonus outcomes on all KPIs in the case of fatalities.

The same remuneration principles are applied to our senior management team, which is composed of highly talented and committed professionals who deliver outstanding operating and financial performance under complex market conditions. We aim to ensure the corporate cohesiveness of the team as well as to support individual success and development.

The purpose and structure of the key elements of the Remuneration Policy is set out below:

- The general structure of the executive Directors' Remuneration Policy successfully achieves our top corporate goals.
- The drivers of variable pay (KPIs) are stretching, well aligned with the Company's strategic objectives and cascade throughout the organisation in a way that ensures our employees' pay is aligned to Polymetal's performance and to the wider principles of the policy.
- The policy is consistent with UK market and governance practice including, but not limited to, in the following aspects:
  - Performance-related pay makes up a significant proportion of the remuneration package (53% and 71% of total remuneration for target and maximum performance scenarios, respectively), with an appropriate balance between reward for short- and long-term performance.
  - Senior management interests are aligned with those of our shareholders and the Company's long-term objectives. 50% of the bonuses awarded each year to the Group CEO and the senior management team are deferred into shares in the Company through the Deferred Share Award plan (DSA) over a period of three years and clawback and malus provisions apply to the unvested awards.
  - The Performance Share Plan (PSP) provides an additional focus for key employees of the Group on delivering superior Total Shareholder Return (TSR). Stringent PSP vesting conditions, based on above median relative TSR and underpinned by positive absolute shareholder returns, are therefore fully aligned with shareholder- value creation.
  - A vesting period of four years under the PSP, over which clawback and malus conditions apply to the unvested awards, with an additional post-vest holding period of one year ensures that management focus on the long-term interests of the Company and of its stakeholders.
  - The Group CEO owns a shareholding equal to 8,780%, of his base salary, far exceeding minimum shareholding requirements of 500% of base salary.

The management KPIs include significant weighting towards sustainability metrics, with the Group CEO's component purposefully focused on health and safety.

Key committee decisions

As communicated within last year's Remuneration Report, and in accordance with the revised Remuneration Policy, and to bring it closer to the industry level, the salary of the Group CEO's (in Roubles) was increased by 25% in 2017.

The Remuneration Policy approved by shareholders last year included a three-year planned increase for the base salary of our Group CEO and senior management team base, after their remuneration had fallen significantly below peer benchmark as their salaries are denominated in Russian Roubles. The policy stated that the CEO's salary would be increased (in Roubles) by up to 10 percentage points above the Russian domestic inflation rate in both 2018 and 2019, subject to a Committee review based on market conditions, exchange rates, the Company results or other considerations.

As per the policy, the Committee carefully reviewed whether this increase remains appropriate for 2018. Given the favourable economic environment in Russia throughout 2017, with a significant slowdown of domestic inflation and strengthening of the RUB/US$ exchange rate (58.3 RUB/US$ average rate, 15% appreciation compared with 2016), the Committee decided that there would be no additional increase to the Group CEO's salary in excess of inflation rate. The approved salary increase will be 2.5%, which is in line with Russian inflation and the average increase for the rest of our workforce. The revised Group CEO base salary of US$434,662 per annum (using 60 RUB/US$ exchange rate) is still below the peer group median (based on 2016 benchmarking performed by PwC). In 2019, the Committee will again carefully review whether a further above-inflation increase remains appropriate.

Non-executive Directors' fees are reviewed on an annual basis. Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK-listed entities, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration and have not been increased since 2011.

Corporate governance and approach to disclosure

As a FTSE 250 company listed on the London Stock Exchange, we comply with the strictest of corporate governance requirements. We remain committed to full adherence of all regulatory requirements and best practice as reflected in our Remuneration Policy, decisions, disclosure practices and requests for shareholder votes.

Moving forward

In 2018, our focus remains on careful oversight of the Remuneration Policy implementation as well as key corporate governance matters, including the smooth transition of new Committee members, gender pay and adjusting to what is likely to be far-reaching new regulatory and governance frameworks as they emerge.

The Committee composition has changed due to the Board succession programme and we have welcomed Giacomo Baizini, who brings wealth of experience of working in both natural resources and large corporates in Russia and beyond. We are looking forward to working with Ollie Oliveira, our new Committee Director, with his strong background in finance and operational and strategic roles primarily in the mining and resource sector. Existing Committee member, Len Homeniuk, will not be offering himself for re-election having served on the Board for approximately seven years since the IPO. The new Directors are familiar with the current remuneration practices in similar environments and as a Committee we will facilitate the transfer of knowledge of remuneration matters and of the Group practices to our new colleagues.

Finally, 2018 will be the first year of potential PSP vesting with respect to 2014 grant, subject to vesting conditions being met.

On behalf of the Committee and of the Board, I continue to welcome feedback from shareholders and look forward to receiving your support at the AGM.

C. Gifard.

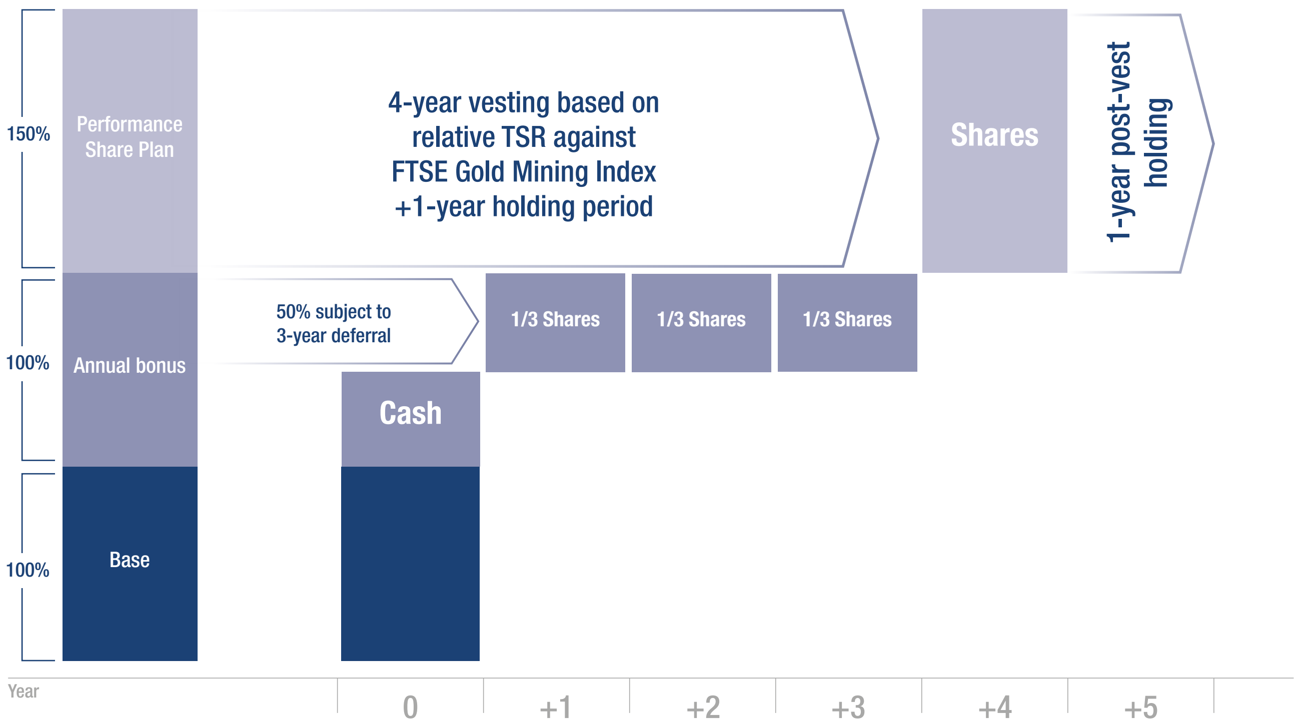
Christine Coignard
Chair, Remuneration Committee

REMUNERATION AT A GLANCE

The overview below summarises our Remuneration Policy as described in the Chairman's letter, the alignment of remuneration framework with our corporate strategy, the drivers of fixed and variable pay and actual payment to the Group CEO for 2017.

OUR REMUNERATION POLICY

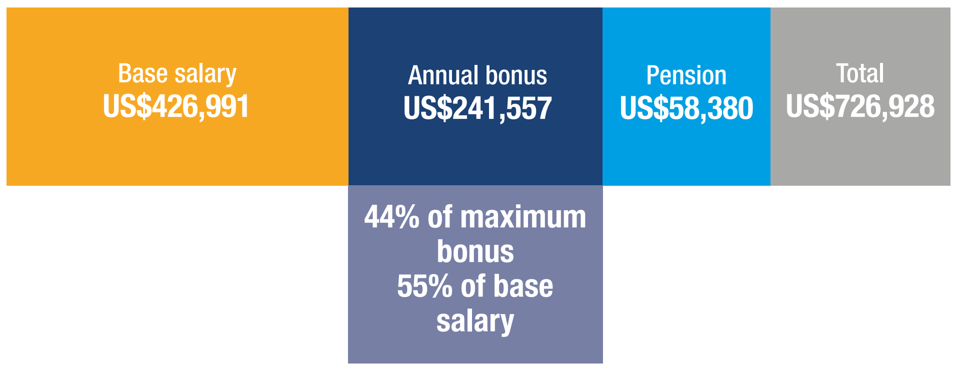
Target, % of base salary



SINGLE TOTAL FIGURE OF REMUNERATION (AUDITED INFORMATION)

The graph opposite sets out total remuneration for the Group CEO for 2017. Further details are provided on page 106.

Group CEO



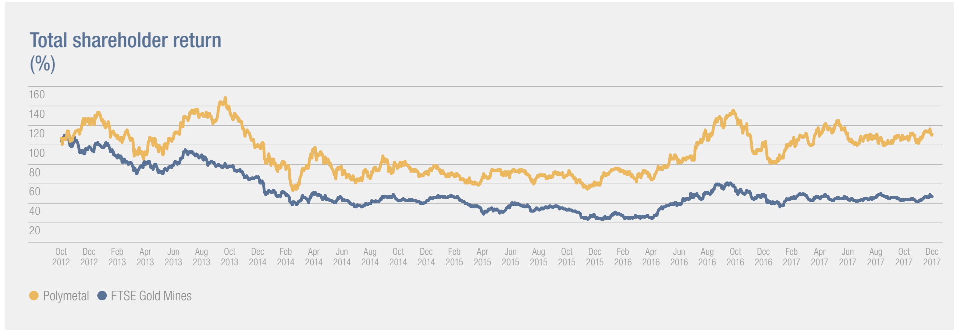
VARIABLE PAY OUTCOMES

Annual bonus payment made in respect of performance for the year comprised 55% of base salary, or US$ 241,557. Further details on the performance measures, targets and actual outcomes are provided on page 100.

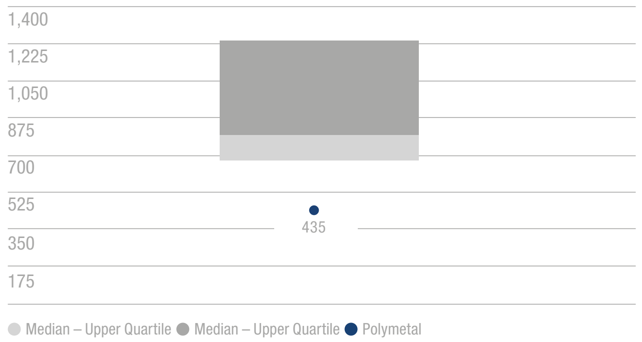
KPIs (Measure)	Link to Strategy	Weights	Awarded in 2017 (% of base salary)
Achieving production budget, Koz	2	25%	38%
Total cash cost per ounce of gold equivalent produced, US$	1	25%	23%
Completion of new projects on time and within budget	1	25%	19%
Health and safety	2	25%	0%
Total achievement before penalty factor		**100%**	**79%**
Penalty factor for fatal/severe cases		Up to 50% of bonus earned for non-safety related KPIs (10% for each fatality/two severe cases) – up to 37.5% of total bonus	-24% (-30% of actual bonus earned)
Total		100%	55%

PSP VESTING AND SHARE PRICE PERFORMANCE

2018 will be the first year of potential Performance Share Plan (PSP) vesting, subject to the share price performance against global peer group over the performance period. Further details on PSP are provided on page 108.

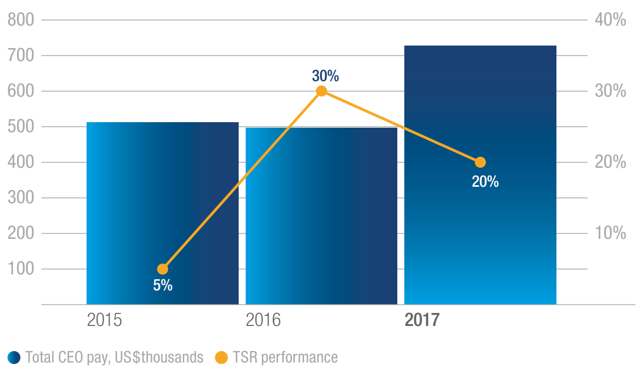


CEO 2018 proposed base salary vs market benchmark[1] (US$ thousands)



[1] Benchmarking performed by PwC in July 2016

CEO pay vs TSR performance



DIRECTORS' REMUNERATION POLICY

Summary table

The Committee received shareholder approval of the following Remuneration Policy at the AGM on 16 May 2017. The new policy covers a period of three years from the date of approval – up to May 2020.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Executive Director – Group CEO			
Base salary To attract and retain high-calibre executives.	The Committee reviews base salary on an annual basis, taking into account general economic and market conditions, underlying Group performance, the level of increases made across the Group as a whole, the remuneration of executives in similar positions in FTSE and global mining peers, and individual performance when setting base salary for the following year.	In accordance with the policy, the Group CEO's salary increased (in Roubles) by 25% from 1 April 2017, and may increase by up to 10 percentage points above the Russian domestic inflation rate in 2018 and 2019. The Committee will carefully review whether these increases remains appropriate in 2018 and 2019 based on the market conditions, exchange rates and the Company's results or other relevant considerations, and suspend if they are not justified. The annual base salary for the reporting year and the current year is set out in the Annual Report on Remuneration and page 108.	Not applicable.
Pension To provide funding for retirement.	The Group does not fund any pension contributions or retirement benefits, except contributions to the mandatory pension fund of the Russian Federation, as required by Russian law. The Group pays defined contributions to the mandatory pension fund. This permits retiring employees to receive a defined monthly pension for life from the statutory pension fund.	Does not exceed the mandatory contribution made to the pension fund of the Russian Federation. Currently 10% of total pay.	Not applicable.
Benefits	The Group does not provide any benefits for its Group CEO.	Not applicable.	Not applicable.
Annual bonus To focus on achieving annual performance goals, which are based on the Group's KPIs and strategy.	The annual bonus result is determined by the Committee after the year end, based on performance against defined targets. Annual bonuses are paid three months after the end of the financial year to which they relate. 50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments through the Deferred Share Awards plan. No clawback is applied to the cash part of the annual bonus, as this provision would contradict the labour law of the Russian Federation. Details of the DSA are set out on the next page.	Maximum bonus opportunity – 125% of base salary. Target bonus opportunity – 100% of base salary. Threshold – nil annual bonus for threshold performance.	The annual bonus is earned based on the achievement of a mix of financial and non-financial measures. For 2017, performance metrics and associated weightings for each were: • production (25%); • total cash costs (25%); • completion of new projects on time and within budget (25%); and • health and safety (25%). There is an additional penalty factor for fatal/severe cases for up to 50% of the annual bonus earned for non-safety related KPIs. The Committee has discretion to vary the list and weighting performance metrics over the life of this Remuneration Policy. In addition, the Committee has discretion to vary performance metrics part-way through a performance year if there is a significant event which causes the Committee to believe that the original performance metrics are no longer appropriate.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Long-Term Incentive Plan (LTIP)			
Deferred Share Awards plan (DSA) Deferral to encourage retention and alignment with shareholders.	50% of the annual bonus earned is paid in cash and the remaining 50% is compulsorily deferred into shares, which are released annually to the employee over the next three years in equal instalments. Clawback and malus provisions apply for the unvested portion of the DSA; the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct and/or a failure of risk management occurs. Dividend equivalents will be received on vested shares, reflecting the value of dividends which have been paid during the period from the grant date to the vesting date.	Not applicable.	Entitlement to this deferred component is subject to continued employment over the deferral period. In normal circumstances, DSAs will continue until the normal time of vesting upon cessation of employment due to death, injury, ill-health, disability, redundancy, retirement, or any other circumstance which the Committee determines (Good Leaver Circumstances). Alternatively, the Board may determine that DSAs will vest immediately. In both circumstances there would be no pro-rating of the DSAs for the time from the award date until cessation of employment or for performance. No performance conditions apply to the DSA shares as they have been subject to fulfilment of annual KPIs.
Performance Share Plan (PSP) To provide long-term alignment with shareholders' interests by delivering sustainable above-market shareholder returns.	Under the PSP, annual rolling conditional share awards are made with a four-year vesting period and an additional mandatory holding period of one year following vesting. Stretching performance targets reward participants for delivering positive absolute and superior relative TSR performance against global peers over the performance period. Clawback and malus provisions apply for the unvested portion of the PSP, whereby the Remuneration Committee may, at any time up to and including vesting, reduce the number of shares that vest, should it consider that a material misstatement, misconduct, and/or a failure of risk management occur. Retesting of the performance conditions in future years is not allowed under any circumstances. First grant under the PSP was made in April 2014; first normal vesting – April 2018, subject to performance conditions being met.	Maximum grant permitted under the plan rules is 200% of salary. Default grant level is expected to be 150% of base salary. Threshold vesting is equivalent to 20% of the award. Dividend equivalents will be received on vested shares, reflecting the value of dividends, which have been paid during the period from the grant date to the vesting date.	Vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting: • 0% vests for below median performance; • 20% vests at median performance; • 100% vests at top decile performance and above. Vesting occurs on a linear line basis between median and top decile performance. No award will vest if absolute TSR is negative, regardless of relative performance. The Committee may substitute, vary or waive the performance targets if an event occurs which causes the Committee to consider that the target is no longer appropriate. The Committee has discretion to vary the proportion of awards that vest to ensure that the outcomes are fair and appropriate and reflect the underlying financial performance of the Group.

Element and purpose/ link to strategy	Operation	Opportunity	Performance metrics used and period applicable
Minimum shareholding requirements To strengthen alignment between interests of executive Directors and those of shareholders.	The Group CEO is required to build a minimum shareholding over a four-year period. Unvested shares under the PSP or DSA are not taken into account when calculating progress towards the minimum shareholding requirements. For the purposes of determining whether the requirements have been met, share price is measured at the end of each financial year. Post vesting and tax, all shares acquired under PSP and DSA awards must be retained until the shareholding requirement is met.	500% of base salary for the Group CEO.	Not applicable.
Non-executive Directors			
Fees for non-executive Directors To attract and retain high-calibre non-executive Directors.	The fees of independent non-executive Directors are set by reference to those paid by other FTSE peer companies. Fees are set to reflect the responsibilities and time spent by non-executive Directors on the affairs of the Company. No fees are paid to non-independent, non-executive Directors. Non-executive Directors are not eligible to receive benefits and do not participate in incentive or pension plans. The following fees are paid in addition to the non-executive Director base fee: Committee Chairmanship fee; Committee membership fee; and Board, Committee and General Shareholder Meeting attendance fee. The Remuneration Committee determines the framework and broad policy for the remuneration of the Chairman. The remuneration of non-executive Directors is a matter for the Chairman of the Board and the executive members of the Board, i.e. the Group CEO. Directors do not participate in discussions relating to their own fees.	Fees are reviewed, but not necessarily increased on an annual basis. Any increase in non-executive Directors' fees will normally be in line with UK inflation and market levels for similar roles in UK-listed companies, except where a change in the scope of the role occurs. Current fee levels are set out in the Annual Report on Remuneration.	Not applicable.

Notes to the policy table

Performance measures and targets

The Committee selected the performance conditions indicated in the policy table because they are central to the Company's overall strategy, and include the key metrics used under the annual bonus and LTIP by the Group CEO to oversee the operation of the business.

Performance targets for all incentive plans are reviewed annually and, where appropriate, are typically set at a level that is in line with the Company's forecasts.

The Long-Term Incentive Plan

Following shareholder approval at the AGM in June 2013, the Company's LTIP (as amended) was put in place. The key terms of the LTIP are described in the Remuneration Policy table above.

The Board believes that the LTIP ensures continued alignment of the executive team's performance with shareholder interests and rewards superior long-term performance and the creation of sustainable shareholder value. The Board also believes that the LTIP is in line with UK best practice and follows fully the provisions of the UK Corporate Governance Code and other relevant guidelines, while also containing features which are superior to common practice in the UK, such as a positive TSR underpinning for vesting of the PSP.

Remuneration policy for other employees

The Remuneration Policy for other members of the executive team and broader management team within the Group is consistent in both structure and KPIs to that of the Group CEO. While the value of remuneration will vary throughout the Group, depending upon the individual's role, significance to the business and level of responsibility, the remuneration of all senior executives consists of a base salary, an annual bonus and participation in the LTIP (the PSP and DSA).

Employees up to three levels below the Board (approximately 400 employees throughout the Group) participate in the PSP at the discretion of the Remuneration Committee. The PSP policy default grant level is 150% of base salary for the Group CEO, 100% for Executive Committee members and 50-100% for employees at the level below the Executive Committee.

Shareholding requirements are also set below the Board level. Operation of the DSA program for the most senior employees mirrors the executive Director's arrangement set out for in the policy table, where 50% of the annual bonus is deferred into shares and released annually to the employees over a period of three years.

The Remuneration Policy for the wider group of employees is aimed at aligning pay with the achievement of targeted results for each employee. The Company's policy on fair pay provides for the payment of additional remuneration for employees living in difficult climatic locations and the delivery of appropriate levels of pay for different levels of work. The bonus component of remuneration for mid-level management and operational staff is measured based on the achievement of production targets, increasing output, the level of justified cost savings and health and safety records. In terms of pension arrangements, the Company applies a consistent approach for the Group CEO and other employees and adheres to the mandatory pension contributions required under applicable laws.

Salaries are considered for annual increases based on the Company's performance results, inflation rates and the competitive level of salaries versus the wider market.

Top-down approach to remuneration structure within the Group

Employee level	No. of employees	Maximum bonus percentage of salary	Proportion of bonus deferred into shares (DSA)	Normal LTIP award grant
Group CEO	1	125%	50%	150%[1]
Executive Committee	7	100%	50%	100%
Mine managing directors and other C-level executives	15	100%	50%	100%
Senior managers and key personnel	650	30-60%	n/a	50-100%[2]
Other employees	11,350	10-30%	n/a	n/a

1 The maximum annual grant permitted under the scheme rules is 200% of base salary.

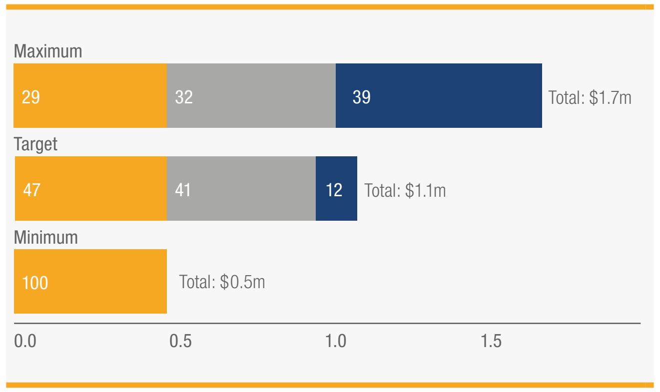
2 LTIP participants from the pool of senior managers and key personnel are recommended by the Company and approved by the Board. Being granted options in one year does not necessarily mean they will be granted the following year.

Illustration of application of remuneration policy

The composition and structure of the remuneration package for the Group CEO under three performance scenarios (maximum performance, target performance and minimum performance) is set out in the chart below.

This chart shows that the proportion of remuneration delivered through short-term and long-term incentive schemes is in line with our Remuneration Policy and changes significantly across the three performance scenarios. As such, the package promotes the achievement of both short-term and long-term performance targets and drives the alignment of the Group CEO's interests with the interests of shareholders.

Application of remuneration policy



Note: Scenario values are translated at the budgeted exchange rate of 60 RUB/US$.

The scenarios are defined as follows:

	Minimum	Target	Maximum
Fixed elements	Base salary and pension	Base salary and pension	Base salary and pension
Single year variable	Performance against quantitative KPIs is below budget by more than 10%. Non-achievement of qualitative or non-financial KPIs. 0% pay-out.	Performance against quantitative KPIs is at budgeted levels. Full achievement of non-financial KPIs. 100% of base salary pay-out (80% of maximum opportunity). Includes DSA awards.	Performance against quantitative KPIs is above budgeted levels. Full achievement of non-financial KPIs. 125% of base salary pay-out (100% of maximum opportunity). Includes DSA awards.
Multiple year variable	Share price performance is below the median of FTSE Gold Mines Index constituents. No shares vest.	Scenario is based on 150% policy awards. Share price performance is at median of FTSE Gold Mines Index constituents. Shares equivalent to 30% of base salary vest under the PSP (20% of total shares available).	Share price performance is in the top decile of FTSE Gold Mines Index constituents. Shares equivalent to 150% of base salary vest under the PSP (100% of total shares available).

No allowance has been made for share price appreciation or for the payment of dividend equivalents.

Approach to recruitment remuneration

The Committee's approach to recruitment remuneration is to pay a competitive overall package, as appropriate, to attract and motivate the right talent for the role. If an executive is promoted to the Board from within the Company, any pre-existing awards or benefits that were made available to him or her prior to becoming a Director (and not in anticipation of an imminent promotion to the Board) will be retained and allowed to vest or be provided under the original terms.

The following table sets out the various components, which would be considered for inclusion in the remuneration package for the appointment of an executive Director. Any new Director's remuneration package would include the same elements, be set at a level consistent with the scope of the role (at a level not exceeding that of the Group CEO as set out in the Remuneration Policy table), and be subject to the same constraints as those of existing Directors performing similar roles, as shown below.

Area	Policy and operation
Base salary and benefits	The base salary level will be set by taking into account the experience of the individual and the salaries paid in comparable co mpanies. Depending on the circumstances of any particular appointment, the Committee may choose to set the base salary below market median and increase the amount paid over a period of time to achieve alignment with market levels for the role (with reference to the experience and performance of the individual), subject to the Company's ability to pay. In line with the Remuneration Policy, as set out in the Directors' Remuneration Policy table, no benefits will be provided to recruited Directors.
Pension	Pension contributions will be limited to the mandatory contributions required by Cypriot/Russian/Kazakh/Armenian or any other applicable law, as set out in the Directors' Remuneration Policy table.
Annual bonus	The executive Director will be eligible to participate in the annual bonus scheme as set out in the Directors' Remuneration Policy table. The maximum annual opportunity is 125% of base salary. 50% of any bonus is deferred into shares under the DSA, as set out in the Directors' Remuneration Policy table.
Long-term incentives	The executive Director will be eligible to participate in the PSP part of LTIP at the Remuneration Committee's discretion and in line with the details set out in the Directors' Remuneration Policy table. The maximum annual grant permitted under the scheme rules is 200% of base salary and the normal grant level is up to 150% of base salary. Performance measures would apply, as set out in the Directors' Remuneration Policy table.
Replacement awards	The Committee will seek to structure any replacement awards so that overall they are no more generous in terms of quantum or timing than the awards to be forfeited as a consequence of the individual joining the Company. In determining the quantum and structure of any replacement awards, the Committee will seek to replicate the fair value and, as far as practicable, the timing, form and performance requirements of the forfeited remuneration. The maximum value of replacement awards is capped at 50% of the individual's base salary, and at least 50% of any replacement award should be delivered in the Company's shares.
Other	Should relocation of a newly recruited executive Director be required, reasonable costs associated with this relocation will be met by the Company. Such relocation support may include, but not be limited, to payment of legal fees, removal costs, temporary accommodation/hotel costs, a contribution to stamp duty and replacement of non-transferable household items. In addition, and in appropriate circumstances, the Committee may grant additional support in relation to the payment of school fees and the provision of tax advice. The Company will reimburse the executive Director for all reasonable expenses, which he/she may incur while carrying out executive duties.

Policy on payment for loss of office

The Committee's approach when considering payments in the event of termination is to take into account individual circumstances, including the reason for termination, contractual obligations of both parties and applicable share plan and pension scheme rules (including any relevant performance conditions).

Vitaly Nesis is an executive Director of Polymetal International plc and Group CEO of JSC Polymetal, a 100% subsidiary of the Group, incorporated in Russia. Further details are set out in the current Directors' service contracts section on page 105.

The table below summarises the key elements of the executive Director policy on payment for loss of office.

Area	Policy and operation	
Notice period	Polymetal International 6 months from Company 6 months from Director	JSC Polymetal With immediate effect from Company 1 month from Director
Compensation for loss of office in service contracts	No entitlement in respect of directorship of Polymetal International. Up to three times average monthly salary in respect of directorship of JSC Polymetal in accordance with provisions of the labour law of the Russian Federation.	
Treatment of annual bonus awards	Where an executive Director's employment is terminated after the end of the performance year, but before the payment of the annual bonus is made, the executive may be eligible for an annual bonus award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct. Where an executive Director' s employment is terminated during a performance year, a pro-rated annual bonus award for the period worked in that performance year may be payable, subject to an assessment based on performance achieved over the period.	
Treatment of unvested Deferred Share Awards under plan rules	In normal circumstances, DSAs will continue until the normal time of vesting upon cessation of employment in Good Leaver Circumstances. Alternatively, the Board may determine that DSAs will vest immediately. In both circumstances there would be no pro-rating of the DSAs for time from the award date until cessation of employment or for performance.	
Treatment of unvested Performance Share Plan awards under plan rules	Any outstanding award will lapse at cessation of employment with the Group, unless the cessation is due to Good Leaver Circumstances, in which case the award will usually vest as normal in accordance with the terms of the award. Alternatively, the Committee may determine that the award will vest immediately. The Committee will determine the proportion of the award that will vest, taking into account (where relevant) the extent to which the performance conditions have been met or are likely to be met at the end of the performance period, and any other factors the Committee may consider relevant.	
Exercise of discretion	Any discretion available in determining the treatment of incentives upon termination of employment is intended only to be relied upon to provide flexibility in unusual circumstances. The Committee's determination will take into account the particular circumstances of the Director's departure and the recent performance of the Group.	
Corporate event	In relation to PSP awards, in the event that the Company's shares cease to trade on the London Stock Exchange or any other recognised stock exchange (Delisting) or the Directors of the Company pass a resolution to the effect that Delisting is imminent or where the Board determines that a 'significant event' has occurred, which may be a demerger, winding-up or compulsory acquisition of the Company, or any other event as determined by the Board, at the discretion of the Board and, where applicable, with the consent of the acquiring company, PSP awards will not vest but will be exchanged for new PSP awards. In the event that the PSP awards are exchanged for new PSP awards: • The award date of the new PSP award shall be deemed to be the same as the award date of the original PSP award. • The new PSP award will be in respect of shares in a company determined by the Board which may include any acquiring company. • The new PSP award must be equivalent to the PSP award and will vest at the same time and in the same manner as the PSP award. • Where relevant, either the vesting of the new PSP award must be subject to any performance conditions which are, so far as possible, equivalent to any conditions applying to the PSP award, or no performance conditions will apply but the value of shares comprised in the new PSP award shall be the value of the number of shares which would have vested under the PSP award if they had not been exchanged for new PSP awards. DSAs shall vest immediately and shall not be pro-rated for time or performance if any of the events referred to above occur.	

Current directors' service contracts

Group CEO

The table below highlights key elements of the service contract of the Group CEO with JSC Polymetal, the Russian holding company of the Group where he holds the CEO position:

Date of contract	1 September 2013
Expiry of term	31 August 2018[1]
Payment in lieu of notice	None
Pension	None, except for defined contributions to the mandatory pension fund of the Russian Federation

[1] Employment contract expected to be renewed on the same terms for a further period of five years.

Following the expiry of the previous five-year employment contract, on 23 August 2013, JSC Polymetal, a 100% indirect subsidiary of the Company incorporated in Russia, entered into an employment contract with Mr Nesis as its Group Chief Executive Officer (Group CEO). The contract became effective on 1 September 2013. The contract was entered into for a period of five years and expires on 31 August 2018.

Under the terms of the contract, the Group CEO undertakes to perform general management of JSC Polymetal and arrange for its commercial, economic, social and other activities with a view to providing for JSC Polymetal's further development. The employment contract does not contain any specific grounds for early termination. The contract can be terminated at any time on one month's notice by Mr Nesis and with immediate effect by JSC Polymetal in accordance with Russian labour and civil law. This could result in compensation of three average monthly salaries.

Mr Nesis entered into an appointment letter (as amended) with the Company in relation to his appointment as an Executive Director. This appointment took effect on 29 September 2011 and was conditional on admission of shares to trading on the London Stock Exchange; Mr Nesis is subject to annual re-election. Mr Nesis does not receive any fees in respect of his appointment as a Director of Polymetal International plc but is entitled to reimbursement of his reasonable expenses incurred in relation to carrying out his duties as a Director. The appointment of Mr Nesis as a Director may be terminated at any time in accordance with the Articles of Association. Mr Nesis can terminate his appointment as a Director on six months' notice. He is not entitled to receive any compensation in respect of his role as Director on termination of this appointment.

The full terms and conditions of appointment are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

Non-executive Directors

Non-executive Directors do not have service contracts. Rather, the terms of their appointment are set out in letters of appointment. The appointment of each of the non-executive Directors took effect from admission until the next AGM of the Company, subject to annual re-election. The appointment of any non-executive Director may be terminated at any time in accordance with the Articles of Association. The appointment of each non-executive Director may be terminated by either party on one month's notice. A non-executive Director is not entitled to receive any compensation on termination of his or her appointment. Each non-executive Director is subject to confidentiality restrictions without limitation in time.

The full terms and conditions of appointment of all of the Directors are available for inspection at the Company's registered office in Jersey and its office in Cyprus.

Dates of contract or appointment for non-executive Directors are set out in the table below:

Director	Date of contract or appointment	Notice period
Bobby Godsell	29 September 2011	1 month
Konstantin Yanakov	29 September 2011	1 month
Jean-Pascal Duvieusart	29 September 2011	1 month
Marina Grönberg	29 September 2011	1 month
Jonathan Best	29 September 2011	1 month
Russell Skirrow	29 September 2011	1 month
Leonard Homeniuk	29 September 2011	1 month
Christine Coignard	1 July 2014	1 month
Tracey Kerr[2]	1 January 2018	1 month
Giacomo Baizini[2]	1 January 2018	1 month

[2] Ms Kerr and Mr Baizini were appointed by the Board with effect from 1 January 2018 as independent non-executive Directors. They are subject to election at the 2018 AGM.

Statement of consideration of shareholders' views

The Company received shareholder approval of its Remuneration Policy at the AGM on 16 May 2017 to cover a period of three years (99.10% of votes in favour). The policy applies from the date of approval. The Directors' annual Remuneration Report was put to an advisory shareholder vote at the 2017 AGM of the Company and received 99.63% vote. The Committee regularly consults with the Company's major shareholders, and sought their feedback on the revised Remuneration Policy.

Statement of consideration of employment conditions elsewhere in the group

In determining salary increases for the Group CEO, the Committee takes into account a range of factors, including overall base salary increases awarded to the wider employee population during the year.

Polymetal is firmly committed to acknowledging and rewarding employees' hard work and achievements. To help us attract and retain the best candidates, we offer competitive remuneration package and benefits which exceed regional averages in our areas of operation. We also aim to provide a pleasant and effective working environment as well as training or further education and other opportunities to our employees. In 2017, 10% average compensation increase for the general workforce was made; in accordance with the new payment policy approved by the shareholders and to bring the salary of the Group CEO's closer to the industry level, a 25% increase was made to the Group CEO's base salary (in Roubles). Hence, the average compensation increase for the general workforce in 2011-2017 has been equivalent to 16% per annum in Rouble terms, compared with an average base salary increase of 10% per annum in Rouble terms for the Group CEO.

For 2018, in line with Russian inflation, a 2.5% increase for all employees was approved by the Committee. The Committee also carefully reviewed whether an increase to the Group CEO in excess of 2.5% was appropriate in accordance with the policy, however, considering the favourable economic environment in Russia and strengthening of the Russian Rouble throughout 2017, no additional increase to the Group CEO was recommended.

Annual report on remuneration

Application of remuneration policy in 2017

Single total figure of remuneration (audited information) – US Dollars

No discretion has been used in respect of non-executive and executive Directors' remuneration throughout the reporting period. Our Group CEO is the only executive member of the Board. The table below sets out 2017 remuneration for the Group CEO.

The Group CEO's remuneration is denominated in Russian Roubles and converted to US Dollars for presentation purposes. The approach to exchange rates and Russian Rouble remuneration equivalent is set out in footnote 1 to this table.

Base salary		Taxable benefits		Annual bonus		Performance Share Plan (PSP)[2]		Pension		Total	
2017	2016	**2017**	2016	**2017**[1]	2016	**2017**	2016	**2017**	2016	**2017**	2016
426,991	303,289	**–**	–	**241,557**	152,329	**–**	–	**58,380**	40,792	**726,928**	496,410

Note: The amounts are translated at the average rates of the Russian Rouble to the US Dollar for 2016 and 2017, respectively.

1 50% of the bonus received in 2017 will be deferred into 10,261 shares on 15 March 2018 at USD 11.8 (RUB 687) per share (using average price for the 90-day period ending 31 December 2017). In line with policy disclosed on page 97, deferred shares will be released in equal tranches over a period of three years in March 2019, March 2020 and March 2021 and are not subject to further performance conditions.

2 No PSP awards vested or exercised in the year.

Details of total fees paid to non-executive Directors and the Chairman during 2017 and 2016 are set out in the table below:

	Total fees (US$) 2017	2016
Bobby Godsell	**374,203**	388,666
Jonathan Best	**222,057**	226,709
Russell Skirrow	**196,370**	199,827
Leonard Homeniuk	**180,648**	191,650
Christine Coignard	**223,271**	232,515
Konstantin Yanakov	**–**	–
Marina Grönberg	**–**	–
Jean-Pascal Duvieusart	**–**	–
Total non-executive fees	**1,196,549**	1,239,367

Note: The amounts for 2017 and 2016 are translated at average GBP/US$ exchange rates.

Non-executive Directors do not receive performance-related pay.

Single total figure of remuneration – Summary

The tables below set out the total 2017 remuneration for the Group CEO. In accordance with the revised Remuneration Policy and to bring the salary of the Group CEO's (in Roubles) closer to the industry level, 25% increase was made in 2017 to his base salary. As a result of the strong performance of the Company and achieving the set KPIs (other than health and safety performance), the Group CEO received a bonus of 44% of maximum opportunity for the year (which constitutes 55% of his base salary or US$ 241,557), with 50% of bonus deferred into shares vesting over a period of next three years under the terms of the DSA. 19,638 total shares vested in 2017 under the DSA. In addition, under the PSP, a conditional award of 47,249 ordinary shares with no par value was made to Mr Nesis in 2017, making the total number of options outstanding under the PSP 236,087.

Single total figure of remuneration – Additional information (Audited)

Annual bonus targets and outcomes

The targets for annual bonus measures and performance against these targets are set out below:

Measures	Weight	Threshold	Target	Maximum	2017 Outcome	Achievement
Achieving production budget, Koz	25%	1,225	1,362	1,430	1,434	38%
Total cash cost per ounce of gold equivalent produced, US$/oz	25%	718	653	620	658	23%
Completion of new projects on time and within budget	25%	1 point	10 points	10 points	7.5 points	19%
Health and safety	25%	Nil fatalities; reduction of LTIFR by 10% y-o-y	Nil fatalities; reduction of LTIFR by 10% y-o-y	NA	2 fatalities and 2 severe cases	0%
Total achievement before penalty factor	**100%**					**79%**
Penalty factor for fatal/severe cases	Up to 50% of bonus earned for non-safety related KPIs (10% for each fatality/two severe cases) – up to 37.5% of total bonus	NA	NA	NA	2 fatalities and 2 severe cases	-24% (-30% of actual bonus earned)
Final achievement for the year						**55%**

Penalty factor for fatal/severe cases is up to 50% of the annual bonus earned for non-safety related KPIs. This resulted in the Group CEO receiving a bonus of 44% of maximum opportunity for the year (which constitutes 55% of his base salary or US$ 241,557).

Deferred Share Awards Plan

In accordance with the DSA, part of the award of shares under the DSA, which were granted in March 2014, March 2015 and March 2016, vested on 15 March 2017 and were transferred to the Group CEO. In addition, further to the bonus approval for the year ended 31 December 2017, the Group CEO will receive on 15 March 2018 a deferred bonus award in shares under the terms of the DSA as per the schedule below. Share awards will vest annually over the next three years in equal instalments (in March 2019, 2020 and 2021). Under the terms of the DSA, dividend equivalents will be received on vested shares reflecting the value of the dividends, which have been paid during the period from the grant date to the vesting date. Dividend equivalents will also be paid as shares.

Name	Position	Year of grant	Number of deferred DSA shares granted	Number of DSA shares vested in 2017	Additional share awards for dividend equivalents	Total number of shares vested under DSA grant	Outstanding shares under DSA grant
Vitaly Nesis	Director	2014	30,081	10,027	1,983	32,064	–
		2015	22,178	7,393	2,064	15,937	8,305
		2016	6,656	2,219	202	2,290	4,568
		2017	7,909	–	69	–	7,978
		Total	**66,824**	**19,639**	**4,318**	**50,291**	**20,851**

Performance Share Plan

Under the PSP, a conditional award of 47,249 ordinary shares with no par value was made to Mr Nesis in 2017, making the total number of options outstanding under the PSP 236,087. It is exercisable following respective four-year vesting periods, subject to performance measures determined by Polymetal. For this award, vesting is based on relative TSR, measured against the constituents of the FTSE Gold Mines Index and also on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting (0% vests for below median performance; 20% vests at median performance; 100% vests at top decile performance and above). No award will vest if absolute TSR is negative, regardless of relative performance.

Name	Position	Year of grant/Year of vesting	Number of PSP share awards granted	Number of PSP shares vested in 2017	Total number of PSP shares vested	Outstanding shares under PSP grant
Vitaly Nesis	Director	2014/2018	74,165	–	–	74,165
		2015/2019	66,166	–	–	66,166
		2016/2020	48,507	–	–	48,507
		2017/2021	47,249			47,249
Total number of options outstanding under the PSP			**236,087**	**–**	**–**	**236,087**

Other scheme interests awarded during the financial year

No other share awards were made to the Group CEO in 2017.

Total pension entitlements

Save for the Group's defined contributions to the mandatory pension fund of the Russian Federation during the financial year ended 31 December 2017, no amounts were set aside or accrued by the Group to provide pension, retirement or other benefits to the Directors and senior management.

Loss of office payments or payments to past directors

No loss of office payments or payments to past Directors were made in the year under review.

Directors' shareholdings

The Group CEO is required to retain a shareholding equal to five times his base salary, i.e 182,275 shares.

For the purposes of determining whether the requirements have been met, the share price is measured at the end of each financial year. Shares are valued for these purposes at the year-end price of US$12.42 per share at 31 December 2017 translated at the closing exchange rate of the US Dollar to the Russian Rouble as at 31 December 2017.

Shares that count towards shareholding requirements include unrestricted shares. The table below sets out the number of shares held, or potentially held, by Directors. For details of outstanding conditional share awards held by the Group CEO at 31 December 2017, refer to page 105.

		Shares held		Options held			
Director	Shareholding requirement (% of salary)	Owned outright	Subject to performance conditions	Vested but unexercised	Exercised in year	Current shareholding (%salary)	Guideline met
Vitaly Nesis	500%	3,200,709	–	–	–	8,780%	yes
Leonard Homeniuk[1]	–	64,000	–	–	–	–	NA
Bobby Godsell	–	2,000	–	–	–	–	NA
Marina Grönberg[2]	–	23,400	–	–	–	–	NA

1 Shares are held by a Person Closely Associated with Mr Homeniuk.

2 Shares are held by Ms Grönberg and a Person Closely Associated with her.

Performance graph

The graph on page 97 illustrates the Company's TSR performance relative to the constituents of the FTSE 250 Index (excluding investment companies), of which the Company is a constituent, from the date of the Company's listing on the London Stock Exchange in October 2011. To provide context to the Company's performance in its specific sector of operation, we also provide an illustration of the Company's TSR relative to the constituents of the FTSE Gold Mines Index.

Group CEO's pay in the last five years

US$	2017	2016	2015	2014	2013
Group CEO total remuneration	**726,928**	496,411	511,665	907,790	1,081,572
Annual bonus – % of maximum	**44%**	40%	33%	90%	88%
PSP award – % of maximum	**–**	–	–	–	–

Percentage change in Group CEO's remuneration

Excluding the value of long-term incentives, the percentage change in total remuneration for the Group CEO was a 46% increase from US$$496,411 in 2016 to US$726,928 in 2017 following 25% base salary increase effective from 1 April 2017. It was also positively affected by 15% appreciation of Russian Rouble against US Dollar. The average percentage change in total remuneration for all employees in US Dollar terms in the same year was a 33% increase mainly driven by Rouble appreciation and general increase in workforce.

To ensure the comparability of this figure, and to minimise distortions, the all-employee remuneration figure is based on full-time permanent employees.

Relative importance of spend on pay

The chart below shows how employee remuneration costs compare with profit before tax and distributions made to shareholders in 2017 and 2016.

Implementation of remuneration policy in 2018

In 2018, the Committee intends to implement the Remuneration Policy for executive and non-executive Directors as follows:

GROUP CEO

Base salary

In accordance with the policy and following careful consideration by the Committee, the Group CEO's salary will be increased (in Roubles) by a total of 2.5% in 2018 in line with the rest of the workforce. Base salary for the Group CEO for 2017 and 2018 is set out below:

	2018 salary[1]	2017 salary[1]	% change
Group CEO	RUB 26,079,690	RUB 25,443,600	2.5%
	US$ 434,662	US$ 424,060	2.5%

1 Base salary for 2018 is translated at the budgeted exchange rate of Rouble to US Dollar for 2018.

The Committee also carefully reviewed whether an increase in excess of 2.5% for the Group CEO was appropriate as per the policy. However, considering the favourable economic environment in Russia and reasonably stable RUB/US$ exchange rate throughout 2017 (58.3 RUB/US$ average rate, 15% decrease compared to 2016), no additional increase was recommended.

The Committee will review whether a further above-inflation increase remains appropriate in 2019 based on the market conditions, exchange rates and the Company's results or other relevant considerations.

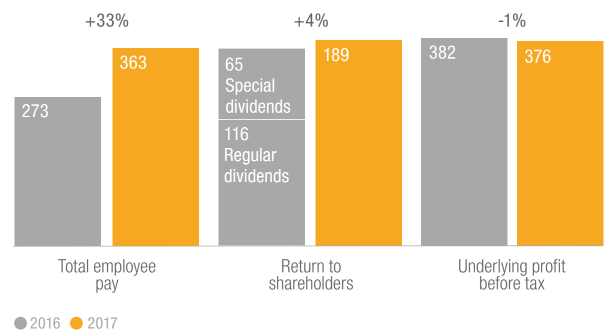
Pension and benefits

No pension or benefits plans are in place for 2018, except for the defined pension contributions to the mandatory pension fund of the Russian Federation.

Annual bonus

The prospective targets for annual bonus measures are considered commercially sensitive by the Board, particularly in the gold mining industry, because of the sensitivity of information that their disclosure may provide to the Company's competitors, given that these are largely based outside the UK and hence are not subject to the same reporting requirements as the Company. Targets and outcomes will be disclosed retrospectively at the end of the performance year.

Relative importance of employee pay (US$m)



Long-term Incentive Plan (Deferred Share Awards Plan and Performance Share Plan)

Deferred Share Awards Plan

The Committee intends to defer annual bonus awards earned for the 2018 performance period in line with policy.

Performance Share Plan

The Committee intends to make an award under the PSP to the Group CEO in 2018, in line with the policy disclosed on page 97. Vesting is based on relative TSR measured against the constituents of the FTSE Gold Mines Index and on the Company's absolute TSR. Peers are ranked and the Company's position determines vesting:

	TSR vs. FTSE Gold Miners	Pay-out
Below threshold	Below median performance	0%
Threshold	Median performance	20%
Maximum	Upper decile performance	100%

Straight-line vesting will occur between median and upper decile performance. No award will vest for performance below median, or if the Company's absolute TSR performance is negative, regardless of relative performance.

Non-executive Directors

There was no change to the non-executive Directors' fees in 2017. Fee rates for 2017 and 2018 are set out below:

Role	2018 fees US$	2017 fees US$
Non-executive Chairman	337,125	337,125
Senior Independent Director	No additional fee	No additional fee
Independent non-executive Director basic fee	134,850	134,850
Additional fees		
Audit and Risk Committee Chair	40,455	40,455
Chair of other Committees	20,228	20,228
Committee membership fee (not payable to the Committee Chair)	13,485	13,485
Board and Committee meeting attendance fee	4,046 per meeting	4,046 per meeting

Note: Non-executive Director fees are denominated in British Pounds Sterling and for presentation purposes the figures are translated to US Dollars at the exchange rate of British Pound to the US Dollar as at 31 December 2017.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive Directors who have no personal financial interest, other than as a shareholder (where applicable), in the matters to be decided. Mr Homeniuk will not be offering himself for re-election at the 2018 AGM of the Company. Mr Oliveira will become a member of the Committee subject to him being elected as a director of the Company at the 2018 AGM.

The membership of the Remuneration Committee is shown in the table below.

Name	Role
Christine Coignard	Chair
Leonard Homeniuk	Member
Jonathan Best	Member
Giacomo Baizini	Member

The principal functions of the Remuneration Committee under its terms of reference are:

- to make recommendations to the Board on the Group's policy on the remuneration of executive management;
- to determine, within agreed terms of reference, the remuneration of the Chairman and specific remuneration packages for each of the executive Director, the Company Secretary and members of senior management, including pension rights and any compensation payments;
- to formulate suitable performance criteria for the performance-based pay of executive management;
- to review and oversee all aspects of any executive share scheme operated by or to be established by the Company; and
- to oversee and advise the Board on any major changes in employee benefit structures throughout the Company or the Group.

The full terms of reference of the Remuneration Committee can be found in the Corporate Governance section on the Company's website: www.polymetalinternational.com.

In 2017, the Financial Reporting Council (the FRC) announced plans for a comprehensive review of the UK Corporate Governance Code, which is expected to include changes relating to remuneration matters. The Committee will closely monitor the development and implement any changes if required.

Consideration by the Directors of matters relating to Directors' remuneration

In 2017, the Remuneration Committee had four meetings. Further business conducted by the Committee was approved by written resolutions on two occasions. The following key areas were covered:

- KPI structure review with particular focus on the choice and applicability of a sustainability KPI;
- review of KPIs for 2017;
- approval of annual bonus and share deferral under the DSA;
- approval of PSP grant (including target levels and results of the previous grants);
- gender equality in pay;
- comprehensive Committee-effectiveness review, including feedback from the senior management;
- terms of reference review;
- annual reimbursement policy review;
- annual Remuneration Report review;
- review peers' disclosure of targets in remuneration reports;
- target KPI disclosure;
- review of regulatory changes and development of the Directors' remuneration reporting; and
- monitoring of market practice and changes in investors' expectations.

The Board considers that the composition and work of the Remuneration Committee complies with the requirements of the UK Code.

In 2017, the Committee performed its comprehensive effectiveness review. It was based on an internally developed questionnaire, taking into account on the one hand external factors including our Group regulatory environment, applicable governance as well as internationally acknowledged best practice, and on the other hand internal factors relating to Group matters including the Remuneration Policy and its application together with Committee's terms of reference, yearly agenda, ways of working and output. Both Remuneration Committee directors and senior management involved in remuneration matters took part in the exercise.

The review was a good opportunity to reflect on the Committee's work and have an open discussion about areas for improvement. The outcome was positive, particularly in relation to shareholder votes and good working relationships with the Board and the Group CEO. The Committee's remits, ways of working and priorities were clarified.

Statement of voting at AGM

At the AGM held on 16 May 2017, votes for the Remuneration report and Remuneration policy were as follows:

	Votes for	Votes against	Withheld
Remuneration Report	296,298,722 (99.63%)	1,101,272 (0.37%)	0
Remuneration Policy	294,388,477 (99.10%)	2,675,792 (0.90%)	335,724

Advisors

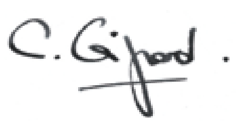
PricewaterhouseCoopers LLP (PwC) provided Polymetal with information and support in relation to the general remuneration matters and implementation of the Company's remuneration policy. PwC is a member of the Remuneration Consultants' Group (RCG) and a signatory of the RCG Voluntary Code of Practice, and incorporates the principles of the Voluntary Code of Practice into its engagement. No other services were provided by PwC during 2017 other than external assurance services for the Company's Sustainability report and tax advisory. Fees paid to PwC in relation to remuneration services provided to the Committee in 2017 totalled US$16,654 (2016: US$13,875), with fees quoted in advance and based on the level of complexity of the work undertaken.

PwC was selected in 2013, after submitting a proposal to management, to carry out benchmarking as part of a competitive process, the results of which were presented to the Remuneration Committee for approval.

During its work in 2017, the Committee was aided by the Group CEO, and senior finance and human resources executives of the Company.

Approval

This report was approved by the Board of Directors and signed on its behalf by



Christine Coignard
Chair, Remuneration Committee

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
APPENDICES

DIRECTORS' REPORT

The Directors submit the Annual Report of Polymetal International plc together with the audited financial statements of Polymetal International plc for the year ended 31 December 2017.

Corporate governance

Refer to pages 75 to 85 for a description of the Group's corporate governance structure and policies.

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2017, the Group held US$36 million of cash and had net debt of US$1,420 million. At 31 December 2017, the Group has undrawn facilities of US$1,361 million, of which US$1,266 million were considered committed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2017.

Longer-term viability statement

Management proposes the following long-term viability statement in 2017 Annual Report with reference to discussions on strategy, objectives and business model:

Viability statement

Based on key drivers and measures of success used within the business, the Board assessed the prospects of the Group, taking account of potential impact of the principal risks to the Group's business model and ability to deliver its strategy, including solvency and liquidity risks during the reasonably reliable lookout period.

Lookout period

The period over which the Board considers it possible to form a reasonable expectation as to the Group's longer-term viability, based on the stress testing and scenario planning process employed by the Group, is the three-year period to December 2020. This is within the Group's existing medium-term forecasting performed on the annual basis and covering strategic and investment medium-term planning. The Board is confident that routine operational risks are being effectively monitored and managed within the three-year lookout period and corporate scenario planning is focusing primarily on plausible changing external factors with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Principal risks

The Board has continued to place great emphasis on risk management in 2017 taking into account material external economic and geopolitical challenges and considering the Group's responsiveness to changes within its business environment. The detailed assessment of principal risks and uncertainties facing the Group is set out on pages 68 to 74 of this Annual Report.

The corporate planning process is underpinned by life-of mine plans and stress scenario testing. The stress tests are designed to evaluate the resilience of the Group to the potential impact of principal risks and the availability and effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on pages 86 to 91, were taken into account.

Key assumptions

The key assumptions underpinning the Board's assessment include gold and silver prices, production volumes, foreign exchange rates and the ability to roll forward borrowing facilities as they fall due in the ordinary course of business. The key assumptions made are consistent with those used for business planning purposes, and also for the assessment of impairment indicators and the recoverability of ore stockpiles and heap leach work in progress.

In making forecasts, full consideration has also been given to all other principal risks to the business. These risks have been considered in our stress testing where appropriate, or are considered to be either immaterial or too remote to affect our viability over a three-year period.

The risks are considered individually and in aggregate, where appropriate.

Liquidity and solvency

The sources of funding available to the Group are set out in Note 24 to the consolidated financial statements. Our base case projections demonstrate that the Group should be able to operate within the currently available debt facilities and comply with all related covenants during the lookout period. The committed undrawn facilities of US$1,266 million noted above have an average period of maturity of four years.

Our stress testing focuses in particular on significant adverse changes in market prices of gold and silver or foreign exchange rates and demonstrates that under reasonably possible downside gold and silver price and exchange rate assumptions, the Group will continue maintaining liquidity and covenant compliance.

Expectations

The Board confirms that taking into account the Group's current position and based upon the robust assessment of the principal risks facing the Group and stress testing-based assessment of the Group's prospects, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

Financial and business reporting

The Board believes that the disclosures set out in the Strategic Report on pages 1 to 74 of this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Directors

The Directors, their status and Board Committee memberships are set out on pages 76 to 77 of the Report.

Appointment and replacement of directors

The Board may appoint a person who is willing to act as a Director, either to fill a vacancy or as an additional Director and, in either case, whether or not for a fixed term. Irrespective of the terms of his or her appointment, a Director so appointed shall hold office only until the next AGM. If not re-appointed at such AGM, he or she shall vacate office at its conclusion.

The Company may, by ordinary resolution, remove any Director from office (notwithstanding any provision of the Company's Articles or of any agreement between the Company and such Director, but without prejudice to any claim that he or she may have for damages for breach of any such agreement). No special notice needs to be given of any resolution to remove a Director and no Director proposed to be removed has any special right to protest against his or her removal. The Company may, by ordinary resolution, appoint another person in place of a Director removed from office.

Directors' interests

Information on Directors' interests in shares of the Company is set out in the Remuneration Report on page 106.

Directors' indemnities

To the extent permitted by the Companies (Jersey) Law 1991, the Company has indemnified every Director and other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) out of the assets of the Company against any liability incurred by him or her for negligence, default, breach of duty, breach of trust or otherwise in relation to the affairs of the Company. This provision does not affect any indemnity to which a Director or officer is otherwise entitled.

Political donations

The Company may not make a political donation to a political party or other political organisation, or to an independent election candidate, or incur any political expenditure, unless such donation or expenditure is authorised by an ordinary resolution of shareholders passed before the donation is made or the expenditure incurred. No such donations were made in 2017 (2016: none).

Capital structure

The structure of the Company's share capital is detailed in Note 30 to the financial statements. There are no specific restrictions on the size of a holding or on the transfer of shares, which are both regulated by the Articles of the Company and applicable legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of shares or on voting rights.

The Articles of the Company can be altered by a special resolution of the Company. A resolution is a special resolution when it is passed by three-quarters of the members who (being entitled to do so) vote in person, or by proxy, at a General Meeting of the Company. Pursuant to the Company's Articles, the Directors have the power to allot Equity Securities (as defined in the Articles).

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as commercial contracts, bank loan agreements and employees' share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid. Substantial shareholdings in the Company are disclosed on page 194.

Details of employee option schemes are set out in the Remuneration Report on page 97. There were no acquisitions of the Company's own shares in 2017.

As at 31 December 2017, the Group and its subsidiaries held no treasury shares (31 December 2016: no shares).

As at 31 December 2017, the Company had shareholders' authority to purchase up to 43,011,266 of its own ordinary shares.

At the AGM of the Company held in 2017, the power to allot Equity Securities was renewed up to an aggregate number of 143,370,887 ordinary shares, provided that the Directors' power in respect of such an amount may only be used in connection with a pre-emptive issue (as defined in the Articles).

The Directors are further empowered pursuant to Article 12.4 of the Company's Articles to allot Equity Securities for cash as if Article 13 of the Articles (Pre-emptive rights) did not apply and for the purposes of paragraph (b) of Article 12.4 of the Articles, the Non Pre-emptive Shares (as defined in the Articles) are an aggregate number of up to 43,011,266 ordinary shares.

The authorities above will, unless previously revoked or varied, expire at the conclusion of the Company's next AGM (or, if earlier, at the close of business on the date which is 15 months after the date of the resolution which granted them, being 16 August 2018).

Pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company is authorised to make market purchases of ordinary shares of the Company, provided that:

- the maximum number of ordinary shares to be purchased is 43,011,266 ordinary shares;
- the minimum price (excluding expenses) which may be paid for each ordinary share is 1 penny;
- the maximum price (excluding expenses) which may be paid for each ordinary share is the higher of:
  a. an amount equal to 105% of the average of the middle market quotations of an ordinary share in the Company as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
  b. an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- pursuant to Article 58A of the Companies (Jersey) Law 1991, the Company may hold as treasury shares any ordinary shares purchased pursuant to the authority conferred in this resolution.

This authority will expire at the conclusion of the Company's next AGM or 18 months from the date of the passing of this resolution, being 16 November 2018 (whichever is earlier).

Approval of share issues, consideration for which does not exceed US$25 million, is delegated to any Director holding any executive office.

As of 9 March 2018, the total issued share capital of the Company comprises 430,115,480 ordinary shares of no par value, each carrying one vote. During the year, 1,853,142 ordinary shares in the Company were issued as follows: 893,575 shares for additional 25% stake in Tarutin deposit; 815,348 shares as payment for a deferred consideration for the acquisition of the Primorskoye property, 144,219 shares in accordance with the Long-Term Incentive Plan.

Dividends

The Group's profit for the year ended 31 December 2017 attributable to equity holders of the Company was US$354 million (2016: US$395 million). Underlying net earnings (adjusted for the after-tax amount of impairment charges, foreign exchange gains/losses and change in fair value of contingent consideration liability) in 2017 were US$376 million (2016: US$382 million). In August 2017, the Company declared an interim dividend of US$0.14 per share (2016: US$0.09 per share), which was paid in September 2017. The Directors have proposed the payment of a final dividend of US$0.30 per share (2016: US$0.18 per share).

Annual General Meeting

The AGM of shareholders of the Company will take place on Wednesday 25 April 2018 at 11 am (BST) to be held at etc. venues Monument, 8 Eastcheap, London, EC3M 1AE, UK.

Auditors

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the Director has taken all steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to re-appoint it will be proposed at the forthcoming AGM. The Audit and Risk Committee reviews both the level of the audit fee and the level and nature of non-audit fees as part of its review of the adequacy and objectivity of the audit process.

Having taken all matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Bobby Godsell
Chairman

9 March 2018

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS). The financial statements are required by law to be properly prepared in accordance with the Companies (Jersey) Law 1991. International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'.

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, the Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue in operation and meet its liabilities as they fall due over the reasonably reliable lookout period of three years.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK and Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the strategic report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board,

Bobby Godsell
Chairman of the Board of Directors

Vitaly Nesis
Group Chief Executive Officer

9 March 2018

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion the financial statements:

- **give a true and fair view of the state of the Group's affairs as at 31 December 2017 and of the Group's profit for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and as issued by the International Accounting Standards Board (IASB); and**
- **have been properly prepared in accordance with Companies (Jersey) Law, 1991.**

We have audited the financial statements of Polymetal International PLC and its subsidiaries (the Group) which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated balance sheet;
- the consolidated statement of cash flows;
- the consolidated changes in equity; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Recoverability of exploration and evaluation assets • Recoverability of ore stock piles and heap leach work in progress
Materiality	The materiality that we used for the Group financial statements was US$22 million (2016: US$21 million) which was determined on the basis of adjusted profit before tax.
Scoping	All reportable segments were subject to a full scope audit with the exception of the Armenian component where specific procedures were performed. This represents a change from 2016 where the Armenian component was subject to a full scope audit.
Significant changes in our approach	The recoverability of operating and development assets and goodwill is no longer considered a significant risk due to sustained stable operational performance of the assets and reduced volatility in gold, silver and copper prices. Accounting for acquisitions is also no longer considered a significant risk as the acquisitions to which it related, being Kapan in Armenia for $38m and Komarovskoye in Kazakhstan for US$120 million, were made in the prior year.

Conclusions relating to going concern, principal risks and viability statement

Going concern We have reviewed the Directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
Principal risks and viability statement Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the Disclosures on pages 68-74 that describe the principal risks and explain how they are being managed or mitigated; • the Directors' confirmation on page 112 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or • the Directors' explanation on page 112 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of exploration and evaluation assets

Key audit matter description	At 31 December 2017, the Group held US$150 million in respect of exploration and evaluation (E&E) assets. Recoverability of E&E assets is dependent on the expected future success of exploration activities. E&E costs, including geophysical, topographical, geological and similar types of costs, are capitalised into exploration assets if management concludes that future economic benefits are likely to be realised based on an assessment of exploration results and identified mineral resources. The evaluation of each asset's future prospects requires significant judgement. According to *IFRS 6 Exploration* for and evaluation of mineral resources, the potential indicators of impairment include: management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable. The group's accounting policy relating to E&E assets is set out on page 131 of the annual report, along with the disclosure note on page 151, and the Audit Committee's consideration of the risk on page 89.
How the scope of our audit responded to the key audit matter	We have reviewed and challenged management's assumptions used in assessing the recoverability of the Group's E&E assets, the most significant being the Bolshevik asset in the Kazakhstan segment. We have reviewed the Board minutes to ensure there are no plans to discontinue exploration activities and reviewed the Board-approved budget for 2018 to check that specific exploration project spend was identified where relevant. We have assessed the recoverability of assets by meeting with operational management to discuss material E&E assets, reviewing drilling and other testing results in the year and confirming future development plans. We have reviewed licence conditions to ensure there were no breaches of key terms, and no licences have expired or expire in the near term. We have performed detailed testing to assess the validity of costs capitalised in the year.
Key observations	No impairments of E&E assets were identified from the work performed.

Recoverability of ore stock piles and heap leach work in progress

Key audit matter description	At 31 December 2017 the Group held US$265 million in respect of ore stockpiles and heap leach work in progress. The write-downs of these metal inventories in the year ended 31 December 2017 were US$18 million. The assessment of the recoverability of ore stockpiles and heap leach work in progress requires management judgement in the determination of expected quantities of metal to be recovered, costs to process into concentrate or Doré for sale, and in estimating future revenue to be realised on sale. The Group's accounting policy relating to valuation of inventory is set out on page 132 of the annual report, along with the disclosure note on page 155, and the Audit Committee's consideration of the risk on page 89.
How the scope of our audit responded to the key audit matter	We have attended inventory counts performed by management's experts, performed roll forward testing from the count dates through to year end by testing management's metal inventory models and assessed management's experts' methodology, expertise and objectivity. To challenge management's recoverability assessment, we have analysed the metal inventory balances to identify adverse changes in costs per unit, and reviewed the production reports specifically focusing on unusual variances in grades of ore extracted, stockpiled and processed, achieved recoveries and technical losses in comparison to prior periods and approved life of mine plans. Where a recoverability risk has been identified, we have recalculated the projected net realisable values based on expected commodity prices, technological recoveries and costs to complete. We challenged management's assumptions against the achieved technological recoveries, actual processing costs in the year and the approved life of mine plans. We have also performed substantive analytical procedures on management's inventory costing calculations.
Key observations	No additional write-downs of ore stockpiles and heap leach work in progress were identified from the work performed.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	US$22 million (2016: US$21 million)
Basis for determining materiality	We used adjusted profit before tax as a key benchmark, supported by a range of other relevant financial metrics, for determining the Group's materiality. This approach is consistent with our 2016 audit and has given a materiality figure which represents 4.9% of the adjusted profit before tax figure (2016: 4%).
Rationale for the benchmark applied	The profit before tax is adjusted to exclude net foreign exchange gains and losses which could, if included, distort materiality year on year. The use of this metric is consistent with our 2016 audit and has been chosen on the basis that the adjusted profit before tax is a key benchmark for management and investors to appraise the group's performance. The adjustment for US$10 million net foreign exchange loss (2016: US$65 million net foreign exchange gain) is not significant in 2017.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of US$1.1m (2016: US$0.42m) for the group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

The group holds various mining assets in Russia, Kazakhstan and Armenia. Our audit scope focused primarily on nine identified components (Voro, Okhotsk, Dukat, Omolon, Varvara, Amursk-Albazino, Mayskoye, Kyzyl and another single component comprising the support function corporate entities) such that 96% of revenue (2016: 100%) and 98% of assets (2016: 97%) were subject to a full scope audit.

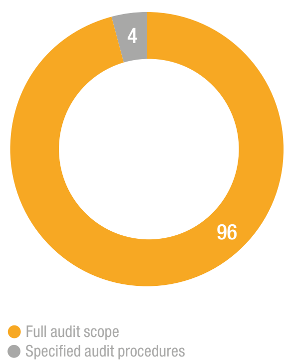
In addition to above, we have performed specific procedures on the Armenian component that consisted of specified procedures on recoverability of E&E assets and on provisionally priced sales, and reviews of all other balances.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement in the aggregated financial information of the remaining components not subject to audit.

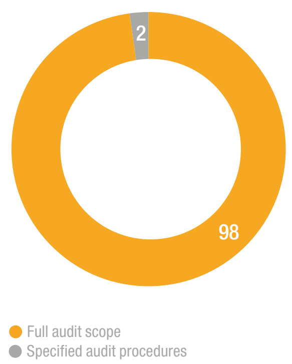
The Group audit team was involved in the work of the component auditors at all stages of the audit process. The signing partner and senior members of the Group engagement team visited the head office in St. Petersburg regularly in the year and continued to follow a programme of regular planned visits to the Group's other business units which included a site visit to the Kyzyl mine in Kazakhstan in October 2017. The Group audit team directed and reviewed in detail the work on significant risks performed by the component auditors.

Our audit work was executed at levels of materiality applicable to each individual component, which were between US$8.8 million and US$19.8 million (2016: US$10.5 million and US$18.9 million)

Group revenue
(%)



Total assets
(%)



Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: • *Fair, balanced and understandable* – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or • *Audit and Risk Committee reporting* – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or • *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

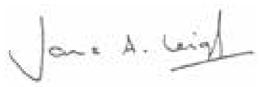
This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law, 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matter prescribed by our engagement letter

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the UK Companies Act 2006 as if that Act had applied to the company.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies (Jersey) Law, 1991 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • proper accounting records have not been kept by the parent company, or proper returns adequate for our audit have not been received from branches not visited by us; or • the financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.



James Leigh, FCA
For and on behalf of Deloitte LLP

Recognized Auditor
London
9 March 2018

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Revenue	6	1,815	1,583
Cost of sales	7	(1,106)	(846)
Gross profit		**709**	**737**
General, administrative and selling expenses	11	(158)	(120)
Other operating expenses, net	12	(44)	(36)
Share of profit of associates and joint ventures	20	3	–
Operating profit		**510**	**581**
Foreign exchange (loss)/gain, net		(10)	65
Change in fair value of contingent consideration liability	28	2	(22)
Finance income		4	3
Finance costs	15	(63)	(63)
Profit before income tax		**443**	**564**
Income tax expense	16	(89)	(169)
Profit for the financial period		**354**	**395**
Profit for the financial period attributable to:			
Equity shareholders of the Parent		354	395
		354	**395**
Earnings per share (US$)			
Basic	30	0.82	0.93
Diluted	30	0.81	0.93

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit for the period	**354**	**395**
Items that may be reclassified to profit and losss		
Exchange differences on translating foreign operations	113	280
Currency exchange differences on intercompany loans forming net investment in foreign operations, net of income tax	(23)	(56)
Total comprehensive income for the period	**444**	**619**
Total comprehensive income for period attributable to:		
Equity shareholders of the Parent	444	619
	444	**619**

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2017 US$m	31 December 2016 US$m
Assets			
Property, plant and equipment	18	2,054	1,805
Goodwill	19	18	17
Investments in associates and joint ventures	20	96	25
Non-current loans and receivables		15	10
Deferred tax asset	16	61	38
Non-current inventories	21	123	113
Total non-current assets		**2,367**	**2,008**
Current inventories	21	514	493
VAT receivable		96	61
Trade receivables and other financial instruments	22	71	70
Prepayments to suppliers		38	31
Income tax prepaid		6	18
Cash and cash equivalents	23	36	48
Total current assets		**761**	**721**
Total assets		**3,128**	**2,729**
Liabilities and shareholders' equity			
Accounts payable and accrued liabilities	26	(135)	(133)
Current borrowings	24	(26)	(98)
Income tax payable		(10)	(8)
Other taxes payable		(38)	(34)
Current portion of contingent consideration liability	28	(5)	(14)
Total current liabilities		**(214)**	**(287)**
Non-current borrowings	24	(1,430)	(1,280)
Contingent consideration liability	28	(57)	(62)
Deferred tax liability	16	(77)	(78)
Environmental obligations	25	(39)	(37)
Other non-current liabilities		(4)	(4)
Total non-current liabilities		**(1,607)**	**(1,461)**
Total liabilities		**(1,821)**	**(1,748)**
NET ASSETS		**1,307**	**981**
Stated capital account	30	2,031	2,010
Share based compensation reserve	31	21	12
Translation reserve		(1,151)	(1,241)
Retained earnings		406	200
Total equity		**1,307**	**981**

Notes on pages 126 to 167 form part of these financial statements. These financial statements are approved and authorised for issue by the Board of Directors on 9 March 2018 and signed on its behalf by:

Vitaly Nesis
Group Chief Executive

Bobby Godsell
Chairman of the Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Net cash generated by operating activities	33	**533**	**530**
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(383)	(271)
Acquisitions of joint ventures and associate	20	(16)	(21)
Loans forming part of the net investment in joint ventures	20	(52)	–
Nezhda call option premium paid	20	(12)	–
Acquisitions of subsidiaries*	4	(7)	(107)
Loans advanced		(18)	(4)
Receipt of repayment of loans provided		11	2
Net cash used in investing activities		**(477)**	**(401)**
Cash flows from financing activities			
Borrowings obtained	24	3,108	1,436
Repayments of borrowings	24	(3,032)	(1,410)
Dividends paid	17	(138)	(158)
Contingent consideration paid	28	(5)	(2)
Net cash used in financing activities		**(67)**	**(134)**
Net decrease in cash and cash equivalents		(11)	(5)
Cash and cash equivalents at the beginning of the period	23	48	52
Effect of foreign exchange rate changes on cash and cash equivalents		(1)	1
Cash and cash equivalents at the end of the financial year		**36**	**48**

* Includes US$5 million outstanding as of 31 December 2016 (Note 26), paid during the year ended 31 December 2017 for Kapan acquisition.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Number of shares outstanding (unaudited)	Stated capital account	Share based compensation reserve	Translation reserve	Retained earnings	Total equity attributable to the parent	Total equity
Balance at 1 January 2016		**424,650,138**	**1,969**	**6**	**(1,465)**	**(23)**	**487**	**487**
Profit for the financial year		–	–	–	–	395	395	395
Other comprehensive income, net of income tax		–	–	–	224	–	224	224
Share based compensation	31	–	–	7	–	–	7	7
Shares alloted to emploees	31	110,850	1	(1)	–	–	–	–
Issue of shares to acquire non-controlling interest	30	898,875	14	–	–	(14)	–	–
Issue of shares in exchange for asset acquisitions	4	1,120,690	11	–	–	–	11	11
Issue of shares for business acquisition	4	1,481,785	15	–	–	–	15	15
Dividends	17	–	–	–	–	(158)	(158)	(158)
Balance at 31 December 2016		**428,262,338**	**2,010**	**12**	**(1,241)**	**200**	**981**	**981**
Profit for the financial year		–	–	–	–	354	354	354
Other comprehensive income, net of income tax		–	–	–	90	–	90	90
Share based compensation	31	–	–	10	–	–	10	10
Shares allotted to employees	31	144,219	1	(1)	–	–	–	–
Issue of shares to acquire non-controlling interest	30	893,575	10	–	–	(10)	–	–
Issue of shares for contingent consideration		815,348	10	–	–	–	10	10
Dividends	17	–	–	–	–	(138)	(138)	(138)
Balance at 31 December 2017		**430,115,480**	**2,031**	**21**	**(1,151)**	**406**	**1,307**	**1,307**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Corporate information

Polymetal Group (the Group) is a leading gold and silver mining group, operating in Russia, Kazakhstan and Armenia.

Polymetal International plc (the Company) is the ultimate parent entity of Polymetal Group. The Company was incorporated in 2010 as a public limited company under Companies (Jersey) Law 1991 and has its place of business in Cyprus. Its shares are traded on the London and Moscow stock exchanges.

Significant subsidiaries

As at 31 December 2017 the Company held the following significant mining and production subsidiaries:

Name of subsidiary	Deposits and production facilities	Segment	Country of incorporation	Effective interest held, % 31 December 2017	31 December 2016
Gold of Northern Urals CJSC	Vorontsovskoye	Ural	Russia	100	100
Okhotskaya Mining and Exploration Company LLC	Avlayakan	Khabarovsk	Russia	100	100
	Khakanzha plant				
Svetloye LLC	Svetloye	Khabarovsk	Russia	100	100
Magadan Silver JSC	Dukat	Magadan	Russia	100	100
	Lunnoe				
	Arylakh				
	Goltsovoye				
Mayskoye Gold Mining Company LLC	Mayskoye	Magadan	Russia	100	100
Omolon Gold Mining Company LLC	Birkachan	Magadan	Russia	100	100
	Tsokol				
	Dalneye				
	Sopka Kvartsevaya				
	Olcha				
Albazino Resources Ltd	Albazino	Khabarovsk	Russia	100	100
Amur Hydrometallurgical Plant LLC	AGMK Plant	Khabarovsk	Russia	100	100
Varvarinskoye JSC	Varvarinskoye	Kazakhstan	Kazakhstan	100	100
Bakyrchik Mining Venture LLC	Bakyrchik	Kazakhstan	Kazakhstan	100	100
Inter Gold Capital LLC	Bolshevik	Kazakhstan	Kazakhstan	100	100
Komarovskoye Mining Company LLC	Komarovskoye	Kazakhstan	Kazakhstan	100	100
Kapan MPC CJSC	Kapan	Armenia	Armenia	100	100

Going concern

In assessing its going concern status, the Group has taken account of its financial position, anticipated future trading performance, its borrowings and other available credit facilities, and its forecast compliance with covenants on those borrowings and its capital expenditure commitments and plans. As at 31 December 2017, the Group held US$36 million of cash and had net debt of US$1,420 million, with US$1,361 million of additional undrawn facilities of which US$1,266 million are considered committed. Debt of US$26 million is due for payment within one year. The Group's cash generation and liquidity remains strong and the Group believes it will be able to operate within existing facilities, but could secure additional financing if and when needed.

The Board is satisfied that the Group's forecasts and projections, having taken account of reasonably possible changes in trading performance, show that the Group has adequate resources to continue in operational existence for at least the next 12 months from the date of this report and that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2017.

Basis of presentation

The Group's annual consolidated financial statements for the year ended 31 December 2017 are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value as of end of the reporting period and share-based payments which are recognised at fair value as of measurement date.

The following accounting policies have been applied in preparing the consolidated financial statements for the year ended 31 December 2017.

Amended accounting standards adopted by the Group

The following amendments to IFRSs became mandatory effective during the year ended 31 December 2017. The amendments generally require full retrospective application, with some amendments requiring prospective application.

- Amendments to IAS 7 *Disclosure Initiative*;
- Amendments to IAS 7 *Recognition of Deferred Tax Assets for Unrealised Losses*; and
- Amendments to IFRS 12 included in Annual Improvements to IFRS Standards 2014-2016 Cycle.

The Group has determined these amendments do not have significant impact on its consolidated financial statements.

New accounting standards issued but not yet effective

IFRS 15 *Revenue from Contracts with Customers.* In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (IFRS 15), which covers principles that an entity shall apply to report information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The Group has determined the impact of IFRS 15 on its consolidated financial statements with the primary focus being understanding those sales contracts where the timing and amount of revenue recognised could differ under IFRS 15, which may occur for example if contracts with customers incorporate performance obligations not currently recognised separately, or where such contracts incorporate variable consideration.

The Group's revenue is primarily derived from commodity sales, for which the point of recognition is dependent on the contract sales terms, known as the international commercial terms (Incoterms). As the transfer of risks and rewards generally coincides with the transfer of control at a point in time under incoterms, the timing and amount of revenue recognised by the Group for the sale of commodities is not materially affected.

For the Incoterms Cost, Insurance and Freight (CIF) and Cost and Freight (CFR) the seller must contract for and pay the costs and freight necessary to bring the goods to the named port of destination. Consequently, the freight service on export commodity contracts with CIF/CFR incoterms represents a separate performance obligation as defined under the new standard, and a portion of the revenue earned under these contracts, representing the obligation to perform the freight service, is deferred and recognised over time as this obligation is fulfilled, along with the associated costs.

The impact of applying the change during the year ended 31 December 2017 would be to reduce revenue and operating costs respectively by US$9 million with no impact on profit. There would be no effect on current assets and current liabilities as at 31 December 2017.

The Group plans to use the modified approach, so the cumulative effect of initially applying IFRS 15 will be recognised as an adjustment to the opening balance of retained earnings as of 1 January 2018.

IFRS 9 *Financial instruments.* In July 2014, the IASB issued the final version of IFRS 9 *Financial instruments* ('IFRS 9'). This standard is effective for annual periods beginning on or after 1 January 2018, and permits early adoption. IFRS 9 provides a revised model for recognition, measurement and impairment of financial instruments. IFRS 9 also includes a substantially reformed approach to hedge accounting. The Group has determined the impact of IFRS 9 on its consolidated financial statements with the primary focus being on the application of the 'expected credit loss' model under which an entity calculates the allowance for credit losses by considering on a discounted basis the cash shortfalls it would incur in various default scenarios for prescribed future periods and multiplying the shortfalls by the probability of each scenario occurring.

The impacts of adopting IFRS 9 on the Group results for the year ended 31 December 2017 are as follows:

- Impairment: The impact of the introduction of an 'expected credit loss' model for the assessment of impairment of financial assets held under amortised cost would be to increase the Group's operating costs by US$4 million and decrease the Group's profit before tax by US$4 million for the year ended 31 December 2017, and to reduce current assets by US$4 million at 31 December 2017.
- Classification and measurement: The measurement and accounting treatment of the Group's financial assets is unchanged on application of the new standard.
- Hedge accounting: no impact as the Group does not elect to use hedge accounting.

As these effects are considered immaterial to the Group, the Group has elected not to restate prior period on adoption of the new standard in 2018.

IFRS 16 *Leases.* IFRS 16 replaces the following standards and interpretations: IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease.* The new standard provides a single lessee accounting model for the recognition, measurement, presentation and disclosure of leases. IFRS 16 applies to all leases including subleases and requires lessees to recognise assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. Application of the standard is mandatory for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Group is in the process of determining the impact of IFRS 16 on its consolidated financial statements.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* remove an inconsistency between the two standards on the accounting treatment for gains and losses arising on the sale or contribution of assets by an investor to its associate or joint venture. Following the amendment, such gains and losses may only be recognised to the extent of the unrelated investor's interest, except where the transaction involves assets that constitute a business. In December 2015, the IASB has postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method accounting. The Group doesn't expect it to have a material impact on its consolidated financial statements.

1. GENERAL CONTINUED

The following standards and interpretations were in issue but not yet effective as of reporting date and are not applicable or have no effect to the Group:

- Amendments to IAS 40 *Investment Property*, effective for annual period beginning on or after 1 January 2018;
- Amendments to IAS 1 *First-time Adoption of International Financial Reporting Standards*, effective for annual period beginning on or after 1 January 2018;
- Amendments to IFRS 2 *Share-based payments*, effective for annual period beginning on or after 1 January 2018;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*, effective for annual period beginning on or after 1 January 2018; and
- IFRIC 23 *Uncertainty over Income Tax Treatment*, effective for annual period beginning on or after 1 January 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidations

Subsidiaries

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated on consolidation.

Changes to the Group's ownership interests that do not result in a loss of control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and non-controlling interests are adjusted to reflect the change in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on the disposal is calculated as the difference between 1) the aggregated fair value of the consideration received and the fair value of any retained interest and 2) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and non-controlling interests.

Business combinations

IFRS 3 *Business Combinations* applies to a transaction or other event that meets the definition of a business combination. When acquiring new entities or assets, the Group applies judgement to assess whether the assets acquired and liabilities assumed constitute an integrated set of activities, whether the integrated set is capable of being conducted and managed as a business by a market participant, and thus whether the transaction constitutes a business combination, using the guidance provided in the standard. Acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in the consolidated income statement as incurred. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalised within 12 months of the acquisition date.

Where applicable, the consideration for the acquisition may include an asset or liability resulting from a contingent consideration arrangement. Contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Subsequent changes in such fair values are adjusted against the cost of acquisition retrospectively with the corresponding adjustment against goodwill where they qualify as measurement period adjustments. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed at the acquisition date. The measurement period may not exceed one year from the effective date of the acquisition. The subsequent accounting for contingent consideration that does not qualify for as a measurement period adjustment is based on how the contingent consideration is classified. Contingent consideration that is classified as equity is not subsequently remeasured. Contingent consideration that is classified as an asset or liability is remeasured at subsequent reporting dates in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IAS 39 *Financial Instruments Recognition and Measurement* with the corresponding amount being recognised in profit or loss.

The identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits*, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in equity are reclassified to profit or loss, where such treatment would be appropriate if that interest was disposed of.

Goodwill and goodwill impairment

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

Acquisition of mining licences

The acquisition of mining licences is often effected through a non-operating corporate entity. As these entities do not represent a business, it is considered that the transactions do not meet the definition of a business combination and, accordingly, the transaction is accounted for as the acquisition of an asset. The net assets acquired are accounted for at cost. Where asset acquisition is achieved in stages net assets acquired are accounted for sum of cost of the original interest acquired and the cost of additional interest acquired.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint arrangement. Significant influence constitutes the power to participate in the financial and operating policy decisions of the investee but does not extend to a control or joint control over the enactment of those policies. The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting.

A joint arrangement is defined as an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

A joint operation is a joint arrangement in which the parties that share joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement. This includes situations where the parties benefit from the joint activity through a share of the output, rather than by receiving a share of the results of trading. In relation to its interest in a joint operation, the Group recognises: its share of assets and liabilities; revenue from the sale of its share of the output and its share of any revenue generated from the sale of the output by the joint operation; and its share of expenses.

A joint venture is a joint arrangement in which the parties that share joint control have rights to the net assets of the arrangement and is accounted for using the equity accounting method.

When entering in a new joint arrangement, the Group applies judgement to assess whether the parties that have joint control over the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement (joint operation) or rights to the net assets of the arrangement (joint venture), using the guidance provided in the standard. When a joint arrangement has been structured through a separate vehicle, consideration has been given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances.

Equity method of accounting

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB). The functional currency of the Group's entities located and operating in Kazakhstan (Varvarinskoye JSC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC, Komarovskoye Mining Company LLC) is the Kazakh Tenge (KZT). The functional currency of the Group's entity located and operating in Amenia (Kapan MPC CJSC) is the Armenian Dram (AMD). The functional currency of the parent company Polymetal International plc and its intermediate holding companies is US Dollar.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an investee at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments. Where an indicator of impairment exists or the carrying value of the asset contains goodwill with an indefinite useful life, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* (IAS 36) as a single cash generating unit through the comparison of its recoverable amount (the higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36.

When a Group entity transacts with its investees, profits and losses resulting from the transactions with the investee are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or the joint venture that are not related to the Group.

Functional and presentation currency

The functional currency for each entity in the Group is determined as the currency of the primary economic environment in which it operates. For all Russian entities the functional currency is the Russian Rouble (RUB). The functional currency of the Group's entities located and operating in Kazakhstan (Varvarinskoye JSC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC, Komarovskoye Mining Company LLC) is the Kazakh Tenge (KZT). The functional currency of the Group's entity located and operating in Amenia (Kapan MPC CJSC) is the Armenian Dram (AMD). The functional currency of the parent company Polymetal International plc and its intermediate holding companies is US Dollars.

The Group has chosen to present its consolidated financial statements in U.S. Dollars (US$), as management believes it is a more convenient presentation currency for international users of the consolidated financial statements of the Group as it is a common presentation currency in the mining industry. The translation of the financial statements of the Group entities from their functional currencies to the presentation currency is performed as follows:

- all assets and liabilities are translated at closing exchange rates at each reporting period end date;
- all income and expenses are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of such transactions;
- resulting exchange differences are recognised in other comprehensive income and presented as movements relating to the effect of translation to the Group's presentation currency within the Translation reserve in equity; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each reporting period presented are translated using exchange rates prevalent at those respective dates. All cash flows in the period are translated at the average exchange rates for the periods presented, except for significant transactions that are translated at rates on the date of transaction.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement. For all other partial disposals (i.e. reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

The Group translates its income and expenses in presentation currency on a monthly basis. During the years ended 31 December 2017 and 31 December 2016 exchange rates used in the preparation of the consolidated financial statements were as follows:

	Russian Rouble/ US Dollar	Kazakh Tenge/ US Dollar	Armenian Dram/ US Dollar
31 December 2017			
Year ended	57.60	332.33	484.10
Average	58.35	326.02	482.71
Maximum monthly rate	59.96	338.78	486.51
Minimum monthly rate	56.43	312.48	478.25
31 December 2016			
Year ended	60.66	333.29	483.94
Average	67.07	341.81	480.49
Maximum monthly rate	77.23	361.53	493.83
Minimum monthly rate	62.20	332.19	474.10

The Russian Rouble, Kazakh Tenge and Armenian Dram are not freely convertible currencies outside the Russian Federation, Kazakhstan and Armenia, accordingly, any translation of Russian Rouble, Kazakh Tenge and Armenian Dram denominated assets and liabilities into US Dollar for the purpose of the presentation of consolidated financial statements does not imply that the Group could or will in the future realise or settle in US Dollars the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than an entity's functional currencies (foreign currencies) are recorded at the exchange rates prevailing on the dates of the transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the reporting date. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement. Exchange differences generated by monetary items that forms part of the intragroup net investment in the foreign operation are recognised in the consolidated financial statements within foreign currency translation reserve.

Property, plant and equipment

Mining assets

Mining assets include the cost of acquiring and developing mining assets and mineral rights. Mining assets are depreciated to their residual values using the unit-of-production method based on proven and probable ore reserves according to the JORC Code, which is the basis on which the Group's mine plans are prepared. Changes in proven and probable reserves are dealt with prospectively. Depreciation is charged on new mining ventures from the date that the mining asset is capable of commercial production. In respect of those mining assets whose useful lives are expected to be less than the life of the mine, depreciation over the period of the asset's useful life is applied.

Mineral rights for the assets under development are included within Exploration and development. When a production phase is started, mineral rights are transferred into Mining assets and are depreciated as described below.

Capital construction-in-progress

Capital construction-in-progress assets are measured at cost less any recognised impairment. Depreciation commences when the assets are ready for their intended use.

Exploration and development assets

Mineral exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs, are capitalised into exploration assets if management concludes that future economic benefits are likely to be realised based on current internal assessment of exploration results and identified mineral resources.

Exploration and evaluation expenditures are transferred to development assets when commercially-viable reserves are identified, so that the entity first establishes proved-and-probable reserves in accordance with JORC Code and respective mining plan and model are prepared and approved. At the time of reclassification exploration and evaluation assets are assessed for impairment based on the economic models prepared.

The costs to remove any overburden and other waste materials to initially expose the ore body, referred to as stripping costs, are capitalised as a part of mining assets when these costs are incurred.

Non-mining assets

Non-mining assets are depreciated to their residual values on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment are considered to have different useful lives, they are accounted for and depreciated separately. Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Estimated useful lives are as set out below:

- Machinery and equipment 5 – 20 years
- Transportation and other assets 3 – 10 years

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

Gains or losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the asset's carrying amount at the date. The gain or loss arising is recognised in the consolidated income statement.

Stripping costs

During the production phase of a mine when the benefit from the stripping activity is the improved access to a component of the ore body in future periods, the stripping costs in excess of the average ore to waste ratio for the life-of-mine of that component are recognised as a non-current asset. After initial recognition, the stripping activity asset is depreciated on a systematic basis (unit-of-production method) over the expected useful life of the identified component of the ore body made accessible as a result of the stripping activity.

Estimated ore reserves

Estimated proven and probable ore reserves reflect the economically recoverable quantities which can be legally recovered in the future from known mineral deposits. The Group's reserves are estimated in accordance with JORC Code.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leases

Operating leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Impairment of property, plant and equipment

An impairment review of property, plant and equipment is carried out when there is an indication that those assets have suffered an impairment loss. If any such indication exists, the carrying amount of the asset is compared to the estimated recoverable amount of the asset in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. The carrying amounts of all the cash-generating units are assessed against their recoverable amounts determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves and certain resources where a relevant resource-to-reserve conversion ratio can be reasonably applied.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately in the consolidated income statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. Impairment loss may be subsequently reversed if there has been a significant change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

A reversal of an impairment loss is recognised in the consolidated income statement immediately.

Inventories

Metal inventories

Inventories including refined metals, metals in concentrate and in process, doré and ore stockpiles are stated at the lower of production cost or net realisable value. Production cost is determined as the sum of the applicable expenditures incurred directly or indirectly in bringing inventories to their existing condition and location. Work in-process, metal concentrate, doré and refined metal are valued at the average total production costs at each asset's relevant stage of production (i.e. the costs are allocated proportionally to unified metal where unified metal is calculated based on prevailing market metal prices). Ore stockpiles are valued at the average cost of mining that ore. Where ore stockpiles and work in-process are not expected to be processed within 12 months, those inventories are classified as non-current.

Net realisable value represents the estimated selling price for that product based on forward metal prices for inventories which are expected to be realised within 12 months, and the flat long-term metal prices non-current inventories, less estimated costs to complete production and selling costs.

Consumables and spare parts

Consumables and spare parts are stated at the lower of cost or net realisable value. Cost is determined on the weighted average moving cost. The portion of consumables and spare parts not reasonably expected to be used within one year is classified as a long-term asset in the Group's consolidated balance sheet. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

Financial Instruments Designated as Fair Value Through Profit and Loss (FVTPL)

A financial instrument other than a financial instrument held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial instrument forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial instruments at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in Note 28.

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Non-derivative financial assets are classified into the following specified categories: FVTPL, available for sale (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. No financial instruments have been classified as available for sale and FVTPL.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is determined by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written-off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

Other financial liabilities

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated income statement.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the hybrid contracts are not measured at FVTPL. Further details of derivative financial instruments are disclosed in Note 28.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or fewer, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Environmental obligations

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when disturbance is caused by the development or ongoing production of mining assets. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value using a risk-free rate applicable to the future cash flows, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises. These costs are recognised in the consolidated income statement over the life of the operation, through the depreciation of the asset in the cost of sales line and the unwinding of the discount on the provision in the finance costs line. Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and recognised in the consolidated income statement as extraction progresses.

Changes in the measurement of a liability relating to the decommissioning of plant or other site preparation work (that result from changes in the estimated timing or amount of the cash flow or a change in the discount rate), are added to or deducted from the cost of the related asset in the current period. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in the consolidated income statement.

The provision for closure cost obligations is remeasured at the end of each reporting period for changes in estimates and circumstances. Changes in estimates and circumstances include changes in legal or regulatory requirements, increased obligations arising from additional mining and exploration activities, changes to cost estimates and changes to the risk free interest rate.

Employee benefit obligations

Remuneration paid to employees in respect of services rendered during a reporting period is recognised as an expense in that reporting period. The Group pays mandatory contributions to the state social funds, including the Pension Fund of the Russian Federation and Kazakhstan, which are expensed as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Income taxes are computed in accordance with the laws of countries where the Group operates.

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax

Current and deferred tax is recognised in the consolidated income statement, except when they relate to items that are recognised in the consolidated statement of comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in consolidated statement of comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Uncertain tax positions

Provision for uncertain tax positions is recognised within current tax when management determines that it is probable that a payment will be made to the tax authority. For such tax positions the amount of the probable ultimate settlement with the related tax authority is recorded. When the uncertain tax position gives rise to a contingent tax liability for which no provision is recognised, the Group discloses tax-related contingent liabilities and contingent assets in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Revenue recognition

Revenue is derived principally from the sale of gold and silver bullions and copper, gold and silver concentrate and is measured at the fair value of consideration received or receivable, after deducting discounts.

Revenue from the sale of gold and silver bullion and sale of copper, gold and silver concentrate is recognised when the risks and rewards of ownership are transferred to the buyer, the Group retains neither a continuing degree of involvement nor control over the goods sold, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue from the sale of gold and silver bullion represents the invoiced value of metal shipped to the buyer, net of value added tax (VAT).

Sale of gold and silver bullion

The Group processes doré produced in the Russian Federation (at Dukat, Okhotsk operations, Voro, Omolon, and Amursk-Albazino) into London Good Delivery Bars prior to sale. This final stage of processing is carried out on a toll-treatment basis at four state-owned refineries. The Group sells gold and silver bullion to banks through long-term agreements. The sales price, as determined in the agreement, may be variable based upon the London Bullion Market Association (LBMA) spot or fixed price, however the Group does not enter into fixed price contracts. For domestic sales, title passes from the Group to the purchaser at the refinery gate with revenue recognised at that point. For export sales, once the gold and/or silver bars have been approved for export by Russian customs, they are then transported to the vault of the purchaser, which is typically located in London. Title passes and revenue is recognised at the point when the gold and/or silver bars are received by the purchaser.

Sales of copper, zinc, gold and silver concentrate

The Group sells copper, zinc, gold and silver concentrate under pricing arrangements where final prices are determined by quoted market prices in a period subsequent to the date of sale. Concentrate sales are initially recorded based on forward prices for the expected date of final settlement. Revenue is recorded at the time of shipment, which is also when risks and rewards pass to the buyer. Revenue is calculated based on the copper, zinc, gold and silver content in the concentrate and using the forward London Bullion Market Association (LBMA) or London Metal Exchange (LME) price to the estimated final pricing date, adjusted for the specific terms of the relevant agreement. Until final settlement occurs, adjustments to revenue are made to take into account the changes in metal quantities upon receipt of new information and assay. Revenue is presented net of refining and treatment charges which are subtracted in calculating the amount to be invoiced.

The Group's sales of copper, zinc, gold and silver concentrate are based on a provisional price and as such, contain an embedded derivative that is required to be separated from the host contract for accounting purposes. The host contract is the receivable from the sale of the concentrate at the forward exchange price at the time of sale. The embedded derivative, which does not qualify for hedge accounting, is measured at FVTPL with changes in its fair value recognised within revenue in the consolidated income statement for each period prior to the final settlement.

Share-based compensation

The Group applies IFRS 2 *Share-based Payments* to account for share-based compensation. IFRS 2 requires companies to recognise compensation costs for share-based payments to employees based on the grant-date fair value of the award.

The fair value of the awards granted under Performance Share Plan (as defined in the Remuneration report) is estimated using a Monte-Carlo model valuation (see note 31).

Awards which are granted under Deferred Share Awards plan and are released over a period of three years, are measured at share price at a grant date and are prorated across periods to the different vest dates (see Note 31).

The fair value of the awards granted is recognised as a general, administrative and selling expense over the vesting period with a corresponding increase in the share-based compensation reserve. Upon the exercise of the awards the amounts recognised within the share-based compensation reserve are transferred to stated capital account.

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Earnings per share

Earnings-per-share calculations are based on the weighted average number of common shares outstanding during the period. Diluted earnings per share are calculated using the treasury stock method, whereby the proceeds from the potential exercise of dilutive stock options with exercise prices that are below the average market price of the underlying shares are assumed to be used in purchasing the Company's common shares at their average market price for the period.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the course of preparing the financial statements, management necessarily makes judgements and estimates that can have a significant impact on those financial statements. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in the future periods affected. The judgements involving a higher degree of estimation or complexity are set out below.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimation (which are dealt with separately below), made in the process of applying the Group's accounting policies during the year that have the most significant effect on the amounts recognised in the financial statements.

Accounting for joint arrangements

When the Group enters into arrangements with other parties for the joint ownership of particular assets or developments, it must assess whether the arrangements constitute control, joint operations or a joint venture based on the rights and obligations of the parties to the joint arrangements (Note 2 sets out the related accounting policies).

As at 31 December 2016, the Group held a 17.66% interest in JSC South-Verkhoyansk Mining Company (Nezhda) with a carrying value of US$21 million (see note 20 to the financial statements). At that time, the Group considered its associated rights and obligations, and concluded that it jointly controlled Nezhda.

In July 2017 Polymetal entered into an agreement to acquire an additional 7% in Nezhda for a cash consideration of US$8 million, from its joint venture partner. At the same time, the Group acquired an option to buy out the remaining 75.3% in Nezhda, which is exercisable between 1 February and 1 June 2018 at the Group's discretion, with the option cost being US$12 million. The completion of the purchase of the additional 7% share in the JV and exercise of the option are subject to various Governmental approvals as noted below. The Group has determined that until it is able to complete these transactions, it remains in joint control over Nezhda, and accordingly the classification of the arrangements continue to meet the definition of a joint venture as per IFRS *Joint arrangements*.

Assessment of indicators of impairment of operating and development assets

The Group is required to conduct an impairment test where there is an indication of impairment of an asset or a cash-generating unit. For goodwill, an annual impairment test is required. Judgement is required in the assessment of whether indicators or impairment (or its reversal) exist.

Operating and economic assumptions, which could affect the valuation of assets using discounted cash flows, are updated regularly as part of the Group's planning and forecasting processes. Significant judgement is required to determine whether any economic or operating assumptions represent significant changes in the economic value of an asset or CGU. Discounted cash flow models are prepared on the basis of such assumptions to determine whether there are any indicators of impairment or impairment reversal.

In addition, indicators for impairment reversal must be assessed for assets (other than goodwill) previously impaired. Any change to operational plans or assumptions, economic parameters, or the passage of time, could result in an impairment reversal, or further impairment, if an indicator is identified.

In making the assessment for impairment indicators, assets that do not generate independent cash inflows are allocated to an appropriate cash-generating unit. Management necessarily applies judgement in allocating assets that do not generate independent cash inflows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets. Refer to Note 19 for further information.

Recoverability of exploration and evaluation assets

Exploration and evaluation assets include mineral rights and exploration and evaluation costs, including geophysical, topographical, geological and similar types of costs. Exploration and evaluation costs are capitalised if management concludes that future economic benefits are likely to be realised and determines that economically viable extraction operation can be established as a result of exploration activities and internal assessment of mineral resources.

According to IFRS 6 *Exploration for and evaluation of mineral resources*, the potential indicators of impairment include: management's plans to discontinue the exploration activities, lack of further substantial exploration expenditure planned, expiry of exploration licences in the period or in the nearest future, or existence of other data indicating the expenditure capitalised is not recoverable. At the end of each reporting period, management assesses whether such indicators exist for the exploration and evaluation assets capitalised, which requires significant judgement.

As of 31 December 2017 total exploration and evaluation costs capitalised amount to US$176 million (2016: US$140 million) with the most significant asset of US$60 million (2016: US$60 million) attributable to the Kyzyl project flanks and satellite deposit Bolshevik.

The Group also has a significant interest in the Nezhda joint venture amounting to US$67 million (see Note 20) as noted above. The completion of the purchase of an additional 7% share in the JV and exercise of the option over the remaining equity are subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the option is also subject to approval by the Russian Federal Antimonopoly Service. The Group has taken the judgement that it is likely that these approvals will be provided, but is also confident that it will be able to enter into revised arrangements or take alternative mitigating action if required to ensure that it can complete the acquisition of the Nezhda project. However, there remains a risk that the Group will not be able to exercise the option, in which case the management will reassess the recoverability of the investment which could lead to a material impairment charge.

Key sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry the most significant risk of material effect on next year's accounts, being items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Cash flow projections for impairment testing

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including ore reserves, together with economic factors such as commodity prices, exchange rates, discount rates and estimates of production costs and future capital expenditure.

- Ore reserves and mineral resources – Recoverable reserves and resources are based on the proven and probable reserves and resources in existence. Reserves and resources are incorporated in projected cash flows based on ore reserve statements and exploration and evaluation work undertaken by appropriately qualified persons (see below). Mineral resources, adjusted by certain conversion ratio, are included where management has a high degree of confidence in their economic extraction, despite additional evaluation still being required prior to meeting the required confidence to convert to ore reserves.
- Commodity prices – Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. Polymetal currently use a flat real long-term gold and silver price of US$1,200 per ounce (2016: US$1,200) and US$16 per ounce (2016: US$16), respectively.
- Foreign exchange rates - Foreign exchange rates are based on latest internal forecasts, benchmarked with external sources of information for relevant countries of operation. Management have analysed RUB/US$ rate movements for the year ended 31 December 2017. RUB/US$ exchange rate is estimated at 60 RUB/US$ (2016: 60 RUB/US$).
- Discount rates – The Group used a post-tax real discount rate of 9.0% (2016: 9.0%). Cash flow projections used in fair value less costs of disposal impairment models are discounted based on this rate.
- Operating costs, capital expenditure and other operating factors – Cost assumptions incorporate management experience and expectations, as well as the nature and location of the operation and the risks associated there with. Underlying input cost assumptions are consistent with related output price assumptions. Other operating factors, such as the timelines of granting licences and permits are based on management's best estimate of the outcome of uncertain future events at the balance sheet date.

Ore reserves

An ore reserve estimate is an estimate of the amount of product that can be economically and legally extracted from the Group's properties. Ore reserve estimates are used by the Group in the calculation of: depletion of mining assets using the units-of-production method; impairment charges and in forecasting the timing of the payment of decommissioning and land restoration costs. Also, for the purpose of impairment review and the assessment of the timing of the payment of decommissioning and land restoration costs, management may take into account mineral resources in addition to ore reserves where there is a high degree of confidence that such resources will be extracted.

In order to calculate ore reserves, estimates and assumptions are required about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices, discount rates and exchange rates. Estimating the quantity and/or grade of ore reserves requires the size, shape and depth of ore bodies to be determined by analysing geological data such as the logging and assaying of drill samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Ore reserve estimates may change from period to period as additional geological data becomes available during the course of operations or if there are changes in any of the aforementioned assumptions. Such changes in estimated reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- asset carrying values due to changes in estimated future cash flows;
- depletion charged in the consolidated income statement where such charges are determined by using the units-of-production method;
- provisions for decommissioning and land restoration costs where changes in estimated reserves affect expectations about the timing of the payment of such costs;
- carrying value of deferred tax assets and liabilities where changes in estimated reserves affect the carrying value of the relevant assets and liabilities; and
- contingent consideration liabilities where these are determined by the future production levels.

Ore reserves are subject to the annual re-estimation (please refer to the Reserves and Resources section of the Annual Report).

Based on the ore reserves estimate as of 1 January 2018, the depreciation charge for the year ended 31 December 2017 would decrease by US$15 million.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

Recoverability of deferred tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised (Note 16). There is an application of judgement in assessing the amount, timing and probability of future taxable profits and repatriation of retained earnings. These factors affect the determination of the appropriate rates of tax to apply and the recoverability of deferred tax assets. These judgements are influenced, inter alia, by factors such as estimates of future production, commodity lines, operating costs, future capital expenditure and dividend policies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

Deferred tax assets arising from tax losses carried forward recognised as of 31 December 2017 amount to US$126 million (2016: US$105 million). Tax losses carried forward represent amounts available for offset against future taxable income generated by ZK Mayskoye LLC (Russian Federation), JSC Varvarinskoye and Bakyrchik Mining LLC (Kazakhstan). Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. Gross tax losses carried forward of US$448 million (2016: US$435 million), for which a deferred tax asset is recognised in JSC Varvarinskoye and Bakyrchik Mining Venture LLC are available during the period up to 2026, with the most significant portion expiring in 2025 (Note 16). The remaining gross tax losses have an indefinite life.

Recoverability of stockpiles and work in-process

The assessment of the recoverability of metal inventories requires judgement both in terms of calculating expected costs to process and refine ore stock piles to produce concentrate or doré for sale, and in terms of estimating future prices to be realised on sale (Note 21). The Group uses survey and assay techniques to estimate quantities of the ore stockpiled and ore stacked in heap leach pads, as well as the recoverable metal in the this material and work in-process. The amount of the recoverable metals, that will be available for sale, is determined based on technological recoveries, which are established for each deposit and extraction technology. Changes in these estimates can result in a change in mine operating costs of future periods and carrying amounts of inventories.

During the year ended 31 December 2017 the Group provided for net realisable value of metal inventories in the amount of US$16 million (year ended 31 December 2016: write-down of US$21 million).

The amount of inventories held at net realisable value at 31 December 2017 is US$60 million (31 December 2016: US$45 million).

The key assumptions used in determining the net realisable value of inventories at 31 December 2017 are consistent with those used for goodwill impairment testing.

Valuation of contingent consideration payable

The Group has recorded contingent consideration liabilities of US$62 million as at 31 December 2017 (2016: $76 million) related to various acquisitions made, as set out in Note 28 to the financial statements. Various estimates must be made when determining the value of contingent consideration to be recognised at each balance sheet date. The assumptions made are consistent with those made for impairment testing purposes (see above), and additional assumptions are included in Note 28. Significant changes in assumptions could cause an increase, or reduction, in the amount of contingent consideration payable, with a resulting charge or credit in the Group income statement.

4. ACQUISITIONS

(a) Year ended 31 December 2017

Primorskaya GGK LLC

In May 2017 Polymetal purchased a 100% interest in Primorskaya GGK LLC, a company holding several licences for the silver-gold properties located in the Primorskiy region of Russia, from an unrelated party for a cash consideration of US$2 million.

The company does not meet the definition of a business pursuant to IFRS 3 and thus it was accounted for as an acquisition of a group of assets. The Group has purchased mineral rights of US$2 million.

(b) Year ended 31 December 2016

Kapan

In March 2016 Polymetal entered into binding agreements with Dundee Precious Metals Inc (Dundee). for the acquisition of CJSC Dundee Precious Metals Kapan (DPMK), the holding company for the Kapan Gold Mine (Kapan) in the Republic of Armenia.

On 28 April 2016 the Group acquired 100% of the shares of DPMK.

The asset comprises a fully mechanised underground mine and a conventional 750 ktpa flotation concentrator and various infrastructure facilities. The mine produces gold, copper, silver and zinc concentrates sold to international markets.

Kapan meets the definition of a business pursuant to IFRS 3 and thus was accounted for at fair value using the acquisition method.

Consideration transferred

The total consideration for the shares at completion comprised US$38 million consisting of US$14 million payable in cash (including post-closing working capital adjustment amounting to US$5 million) and US$15 million paid through the issue of 1,481,785 new ordinary shares of the Company. In addition, Dundee receives a 2% NSR (Net Smelter Return) royalty on the future production from the Kapan Gold Mine capped at US$25 million.

The fair value of the 1,481,785 ordinary shares issued as part of the consideration paid for Kapan was determined based on spot price as of acquisition date, being US$10.28, and amounts to US$15 million.

The net smelter return royalty described above meets the definition of contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Kapan mine by discounting projected cash flows to the acquisition date. The following metal price assumptions, consistent with the assumptions adopted for the long-term planning at the time of acquisition, were used for the fair value calculation: Au – US$1,250/oz, Ag – US$17/oz, Cu – US$4,500/tonne, Zinc – US$ 1,800/tonne, real post-tax discount rate of 9.04%. At the acquisition date, the estimated fair value of the contingent consideration amounted to US$9 million.

Assets acquired and liabilities recognised at the date of acquisition

As of date of finalisation of the interim consolidated financial statements for the period ended 30 June 2016 the fair value of the assets acquired and liabilities recognised at the date of acquisition was provisionally accounted for, as well as the amount of the post-closing working capital adjustment. A post-closing working capital adjustment of US$5 million was outstanding as of 31 December 2016 and was included in account payable. The amount was paid during the year ended 31 December 2017.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed and its reconciliation to the provisionally accounting are set out in the table below:

	Provisional accounting US$m	Fair value adjustments US$m	Final accounting US$m
Assets acquired and liabilities recognised at the date of acquisition			
Cash and cash equivalents	1	–	1
Mineral rights	17	(17)	–
Property, plant and equipment	4	17	21
Inventories	11	5	16
Account receivable	12	–	12
Accounts payable and accrued liabilities	(8)	–	(8)
Taxes payable	(12)	–	(12)
Environmental obligations	(1)	–	(1)
Deferred taxes	9	–	9
Net assets acquired	**33**	**5**	**38**
Consideration transferred			
Cash	9	5	14
Fair value of shares issued	15	–	15
Contingent consideration	9	–	9
Total consideration	**33**	**5**	**38**
Net cash outflow on acquisition	**8**	**–**	**8**
Cash consideration payable as of 31 December 2016	**–**	**–**	**5**

No significant financial assets were acquired in business combination. The fair value of the accounts receivable approximates to its carrying value.

Komarovskoye

On 4 April 2016 Polymetal entered into a binding agreement with Kazzinc LTD, a subsidiary of Glencore International plc, for the acquisition of Orion Minerals LLC, the holding company for the Komarovskoye Gold Deposit (Komarovskoye) in the Republic of Kazakhstan.

The asset comprises an active open pit mine and a 500 ktpa heap leach facility with grid power available on site. Polymetal aims to mine, deliver by rail and process at Varvara up to 2 Mtpa of ore with potential to increase Varvara's annual production at lower cash costs.

The acquisition of the Komarovskoye was completed on 1 August 2016, following receipt of all required regulatory approvals.

Management considers that the control over the Komarovskoye was obtained on the date of the deal completion.

Komarovskoye meets the definition of a business pursuant to IFRS 3 thus it was accounted for at fair value using the acquisition method.

The total consideration for Komarovskoye was US$100 million payable in cash. In addition, a deferred consideration contingent upon future production levels and gold price performance, will be paid to Kazzinc LTD. The royalty is calculated on a quarterly basis, based on contained gold in ore mined per relevant quarter and is payable at gold prices above US$1,250 per ounce. The royalty is capped at a total consideration of US$80 million.

4. ACQUISITIONS CONTINUED

Consideration transferred

Deferred consideration described above meets definition of the contingent consideration. The fair value of the contingent consideration was determined based on the life-of-mine model of the Komarovskoye mine and calculated using Monte Carlo modelling. Projected cash flows were discounted to the acquisition date at a discount rate of 9.04%. Gold price volatility was assessed at 18.08%, average gold price for one quarter to the valuation date was US$1,291/ounce. As at acquisition date the estimated contingent consideration amounts to US$20 million.

Assets acquired and liabilities recognised at the date of acquisition

As at 31 December 2016, purchase price allocation for the acquisition of Komarovskoye was not completed and mineral rights and environmental obligations were accounted for on a provisional basis. The Group completed the purchase price allocation review during the year ended 31 December 2017 and made no adjustments to the provisional calculation.

The management believes that this business acquisition does not give rise to goodwill and excess of consideration over identifiable net asset assets of the acquiree should be fully attributed the mineral rights. The amount recognised in respect of the identifiable assets acquired and liabilities assumed are set out in the table below:

	US$m
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	1
Property, plant & equipment	140
Inventories	7
Accounts receivable	1
Accounts payable and accrued liabilities	(2)
Environmental obligations	(1)
Deferred income taxes	(25)
Other liablities	(1)
Net assets acquired	**120**
Consideration transferred	
Cash	100
Contingent consideration	20
Total consideration	**120**
Net cash out flow on acquisition	**99**

No significant financial assets were acquired in business combination.

No significant acquisition-related costs were incurred.

Saum Mining Company LLC

On 2 December 2016 Polymetal International plc acquired an 80% stake in Saum Mining Company LLC, a licence holder for the Saum polymetallic deposit (Saum). Polymetal issued 1,120,690 new Company shares (Consideration shares), representing 0.26% of Polymetal's total increased share capital in connection with the acquisition of an 80% stake in Saum from an unrelated party. The total transaction value is approximately US$10.7 million.

The Saum licence covers an area of 34.2 km^2 in Russia's Sverdlovsk region in the Ural Mountains and is located and approximately 240 km from Polymetal's Voro processing plant. Polymetal plans to prepare an ore reserves estimate in Q4 2017. Further drilling is planned on the property in 2017 and 2018.

Saum does not meet the definition of a business pursuant to IFRS 3, as it represents acquisition of mining license through a non-operating corporate entity, and thus it is accounted for as an acquisition of a group of assets. The Group purchased mineral rights of US$10 million and other current assets of US$1 million.

5. SEGMENT INFORMATION

During the year ended 31 December 2017 management has reviewed the segmental presentation of financial information it requires to assess performance and allocate resources. It now considers a more geographic-focused reporting format based on the location of operating activities to be more meaningful from a management and forecasting perspective, as well as aligned to the management structure, reporting and practices.

The Group has identified five reportable segments:

- Magadan (Omolon Gold Mining Company LLC, Magadan Silver JSC, Mayskoye Gold Mining Company LLC);
- Ural (Gold of Northern Urals CJSC);
- Khabarovsk (Albazino Resources Ltd, Amur Hydrometallurgical Plant LLC, Okhotskaya Mining and Exploration Company LLC, Svetloye LLC);
- Kazakhstan (Varvarinskoye JSC, Komarovskoye Mining Company LLC, Bakyrchik Mining Venture LLC, Inter Gold Capital LLC); and
- Armenia (Kapan MPC CJSC, Lichkvaz CJSC).

Reportable segments are determined based on the Group's internal management reports, which are separated based on the Group's geographical structure. Minor companies and activities (management, exploration, purchasing and other companies) which do not meet the reportable segment criteria are disclosed within corporate and other segment. Each segment is engaged in gold, silver or copper mining and related activities, including exploration, extraction, processing and reclamation. The Group's segments are based in the Russian Federation, Kazakhstan and Armenia.

The measure which management and the Chief Operating Decision Maker (the CODM) use to evaluate the performance of the Group is segment Adjusted EBITDA, which is defined as profit for the period adjusted for depreciation and amortisation, write-downs and reversals of inventory to net realisable value, share-based compensation expenses, rehabilitation expenses, bad debt allowance, gains or losses arising on acquisition or disposal of subsidiaries, foreign exchange gains or losses, changes in the fair value of contingent consideration, finance income, finance costs, income tax expenses and tax exposure accrued within other operating expenses. The accounting policies of the reportable segments are consistent with those of the Group's accounting policies under IFRS.

Revenue shown as corporate and other comprises, principally, intersegment revenue relating to the supply of inventories, spare parts and fixed assets, and rendering management services to the Group's production entities. Intersegment revenue is recognised based on costs incurred plus a fixed margin basis. External revenue shown within corporate and other represents revenue from services provided to third parties by the Group's non-mining subsidiaries.

Business segment current assets and liabilities, other than current inventory, are not reviewed by the CODM and therefore are not disclosed in these consolidated financial statements. The segment adjusted EBITDA reconciles to the profit before income tax as shown on the next page.

5. SEGMENT INFORMATION CONTINUED

The segment adjusted EBITDA reconciles to the profit before income tax as follows:

	Magadan	Khabarovsk	Ural	Kazakhstan	Armenia	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Period ended 31 December 2017 (US$m)									
Revenue from external customers	810	630	155	154	66	1,815	–	–	1,815
Intersegment revenue	–	14	1	6	–	21	218	(239)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	437	301	43	83	39	903	141	(167)	877
Cost of sales	540	371	56	114	51	1,132	141	(167)	1,106
Depreciation included in cost of sales	(94)	(65)	(13)	(29)	(9)	(210)	–	–	(210)
Write-down of metal inventory to net realisable value	(12)	(3)	–	(1)	–	(16)	–	–	(16)
Write-down of non-metal inventory to net realisable value	3	(2)	–	(1)	(3)	(3)	–	–	(3)
General, administrative and selling expenses, excluding depreciation, amortisation and share based compensation	29	18	5	13	5	70	89	(15)	144
General, administrative and selling expenses	53	35	12	17	5	122	102	(66)	158
Intercompany management services	(23)	(16)	(7)	(3)	–	(49)	(2)	51	–
Depreciation included in SGA	(1)	(1)	–	(1)	–	(3)	(1)	–	(4)
Share based compensation	–	–	–	–	–	–	(10)	–	(10)
Other operating expenses excluding additional tax charges	24	10	11	9	2	56	6	(10)	52
Other operating expenses	21	11	9	9	(4)	46	8	(10)	44
Additional mining taxes and VAT exposures, penalties and accrued interest	3	(1)	2	–	6	10	(2)	–	8
Share of profit of associates and joint ventures	–	–	–	–	–	–	3	–	3
Adjusted EBITDA	**320**	**315**	**97**	**55**	**20**	**807**	**(15)**	**(47)**	**745**
Depreciation expense	95	66	13	30	9	213	1	–	214
Rehabilitation expenses	–	–	–	–	–	–	–	–	–
Write-down of non-metal inventory to net realisable value	(3)	2	–	1	3	3	–	–	3
Write-down of metal inventory to net realisable value	12	3	–	1	–	16	–	–	16
Share-based compensation	–	–	–	–	–	–	10	–	10
Additional mining taxes and VAT exposures, penalties and accued interest	(3)	1	(2)	–	(6)	(10)	2	–	(8)
Operating profit / (loss)	**219**	**243**	**86**	**23**	**14**	**585**	**(28)**	**(47)**	**510**
Net foreign exchange gains									(10)
Change in fair value of contingent consideration liability									2
Finance income									4
Finance costs									(63)
Profit before tax									**443**
Income tax expense									(89)
Profit for the financial period									**354**
Current metal inventories	130	125	42	30	6	333	–	(5)	328
Current non-metal inventories	99	48	6	21	4	178	17	(9)	186
Non-current segment assets:									
Property, plant and equipment, net	469	443	46	892	66	1,916	138	–	2,054
Goodwill	18	–	–	–	–	18	–	–	18
Non-current inventory	86	13	2	23	1	125	–	(2)	123
Investments in associates	–	–	–	–	–	–	96	–	96
Total segment assets	**802**	**629**	**96**	**966**	**77**	**2,570**	**251**	**(16)**	**2,805**
Additions to non-current assets:	–	–	–	–	–	–	–	–	–
Property, plant and equipment	106	114	9	165	24	418	13	–	431
Acquisitions of subsidiaries	–	–	–	–	–	–	2	–	2

	Magadan	Khabarovsk	Ural	Kazakhstan	Armenia	Total reportable segments	Corporate and other	Intersegment operations and balances	Total
Period ended 31 December 2016 (US$m)									
Revenue from external customers	823	473	157	101	29	1,583	–	–	1,583
Intersegment revenue	–	6	–	–	–	6	196	(202)	–
Cost of sales, excluding depreciation, depletion and write-down of inventory to net realisable value	362	203	36	61	19	681	134	(149)	666
Cost of sales	461	258	47	72	23	861	134	(149)	846
Write-down of metal inventory to net realisable value	(16)	(5)	–	–	–	(21)	–	–	(21)
Depreciation included in cost of sales	(79)	(47)	(11)	(11)	(4)	(152)	–	–	(152)
Write-down of non-metal inventory to net realisable value	(3)	(3)	–	–	–	(6)	–	–	(6)
Rehabilitation expenses	(1)	–	–	–	–	(1)	–	–	(1)
General, administrative and selling expenses, excluding depreciation, amortisation and share based compensation	23	14	4	9	3	53	69	(12)	110
General, administrative and selling expenses	41	27	10	11	3	92	79	(51)	120
Intercompany management services	(18)	(12)	(6)	(1)	–	(37)	(2)	39	–
Depreciation included in SGA	–	(1)	–	(1)	–	(2)	(1)	–	(3)
Share based compensation	–	–	–	–	–	–	(7)	–	(7)
Other operating expenses excluding additional tax charges	26	6	4	3	1	40	10	(2)	48
Other operating expenses	11	6	5	3	3	28	10	(2)	36
Bad debt allowance	–	–	–	–	–	–	–	–	–
Additional mining taxes and VAT exposures, penalties and accrued interest	15	–	(1)	–	(2)	12	–	–	12
Share of profit of associates and joint ventures	–	–	–	–	–	–	–	–	–
Adjusted EBITDA	**412**	**256**	**113**	**28**	**6**	**815**	**(17)**	**(39)**	**759**
Depreciation expense	79	48	11	12	4	154	1	–	155
Rehabilitation expenses	1	–	–	–	–	1	–	–	1
Write-down of non-metal inventory to net realisable value	3	3	–	–	–	6	–	–	6
Write-down of metal inventory to net realisable value	16	5	–	–	–	21	–	–	21
Share-based compensation	–	–	–	–	–	–	7	–	7
Bad debt allowance	–	–	–	–	–	–	–	–	–
Additional mining taxes and VAT exposures, penalties and accued interest	(15)	–	1	–	2	(12)	–	–	(12)
Operating profit / (loss)	**328**	**200**	**101**	**16**	**–**	**645**	**(25)**	**(39)**	**581**
Net foreign exchange gains									65
Change in fair value of contingent consideration liability									(22)
Finance income									3
Finance costs									(63)
Profit before tax									**564**
Income tax expense									(169)
Profit for the financial period									**395**
Current metal inventories	130	105	38	43	6	322	–	(7)	315
Current non-metal inventories	86	50	5	16	7	164	23	(9)	178
Non-current segment assets:									
Property, plant and equipment, net	436	377	49	773	50	1,685	144	(24)	1,805
Goodwill	17	–	–	–	–	17	–	–	17
Non-current inventory	94	13	2	4	1	114	–	(1)	113
Investments in associates	–	–	–	–	–	–	25	–	25
Total segment assets	**763**	**545**	**94**	**836**	**64**	**2,302**	**192**	**(41)**	**2,453**
Additions to non-current assets:									
Property, plant and equipment	78	73	7	108	13	279	9	–	288
Acquisitions of subsidiaries	**–**	**–**	**–**	**140**	**21**	**161**	**10**	**–**	**171**

6. REVENUE

Revenue analysed by geographical regions of customers is presented below:

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Sales within the Russian Federation	1,090	899
Sales to Kazakhstan	301	295
Sales to Europe	224	205
Sales to East Asia	200	184
Total	**1,815**	**1,583**

Included in revenues for the year ended 31 December 2017 are revenues which arose from sales of the Group's largest customers, those share in revenue exceeds 10% of the total, amounting to US$610 million, US$200 million, US$167 million and US$136 million, respectively (2016: US$416 million, US$281 million and US$206 million, respectively). Presented below is an analysis of revenue from gold, silver, zinc and copper sales:

	Year ended 31 December 2017				Year ended 31 December 2016			
	Thousand ounces/ tonnes shipped	Thousand ounces/ tonnes payable	Average price (US Dollar per troy ounce/ tonne payable)	US$m	Thousand ounces/ tonnes (unaudited) shipped	Thousand ounces/ tonnes (unaudited) payable	Average price (US Dollar per troy ounce/tonne payable) (unaudited)	US$m
Gold (thousand ounces)	1,105	1,090	1,247	1,359	882	880	1,216	1,070
Silver (thousand ounces)	26,888	26,469	16.1	426	31,099	30,666	16.3	500
Copper (tonnes)	2,717	2,573	6,607	17	1,689	1,634	4,896	8
Zinc (tonnes)	5,466	4,679	2,779	13	3,246	2,800	1,786	5
Total				**1,815**				**1,583**

7. COST OF SALES

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Cash operating costs		
On-mine costs (Note 8)	414	320
Smelting costs (Note 9)	316	259
Purchase of ore and concentrates from third parties	54	27
Purchase of ore from related parties (Note 32)	38	11
Mining tax	88	82
Total cash operating costs	**910**	**699**
Depreciation and depletion of operating assets (Note 10)	193	162
Rehabilitation expenses	–	1
Total costs of production	**1,103**	**862**
Increase in metal inventories	(26)	(51)
Write-down of metal inventories to net realisable value (Note 21)	16	21
Write-down of non-metal inventories to net realisable value (Note 21)	3	6
Idle capacities and abnormal production costs	10	8
Total	**1,106**	**846**

Mining tax includes royalties payable in Russian Federation, Kazakhstan and Armenia. Mining tax in Russian Federation and Kazakhstan is calculated based on the value of the precious metals extracted in the period. This value is usually determined based on the realised selling price of precious metals or, in case if there were no sales during the period, cost of production of metals extracted (Russian Federation) or the average market price (Kazakhstan) during the period. The royalty payable in Armenia is calculated as a percentage of actual sales during the reporting period.

Mining tax in respect of the metal inventories produced or sold during the year is recognised within cost of sales, while the additional mining tax accruals in respect of various disputes with tax authorities are recognised within other expenses (see Note 12).

Idle capacities and abnormal production costs were expensed as incurred and relate to idle capacities when processing plants are stopped for general maintenance.

8. ON-MINE COSTS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Services	192	139
Labour	118	97
Consumables and spare parts	101	79
Other expenses	3	5
Total (Note 7)	**414**	**320**

9. SMELTING COSTS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Consumables and spare parts	132	114
Services	116	93
Labour	65	50
Other expenses	3	2
Total (Note 7)	**316**	**259**

10. DEPLETION AND DEPRECIATION OF OPERATING ASSETS

	Year ended 31 December 2017 US$m	31 December 2016 US$m
On-mine	137	117
Smelting	56	45
Total (Note 7)	**193**	**162**

Depreciation of operating assets excludes depreciation relating to non-operating assets (included in general, administrative and selling expenses) and depreciation related to assets employed in development projects where the charge is capitalised. Depreciation expense, which is excluded from the Group's calculation of Adjusted EBITDA (see Note 5), also excludes amounts absorbed into unsold metal inventory balances.

11. GENERAL, ADMINISTRATIVE AND SELLING EXPENSES

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Labour	116	87
Services	11	10
Share based compensation	10	7
Depreciation	4	3
Other	17	13
Total	**158**	**120**

12. OTHER OPERATING EXPENSES, NET

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Exploration expenses	18	10
Social payments	15	10
Provision for investment in Special Economic Zone	12	14
Taxes, other than income tax	11	11
Housing and communal services	4	4
Loss on disposal of property, plant and equipment	1	1
Change in estimate of environmental obligations	(4)	(5)
Additional mining taxes and VAT exposures, penalties and accrued interest, net	(8)	(12)
Other expenses	(5)	3
Total	**44**	**36**

From 1 January 2017 Omolon Gold Mining Company LLC and Magadan Silver JSC are entitled to the decreased statutory income tax rate of 17% (2016: 18%) for the operations held in the Special Economic Zone of the Russian Far East, as well as decreased mining tax rate (paying at 60% of the standard mining tax rates). In return for obtaining this tax relief the members of the regional free economic zone are obliged to invest 50% of their tax savings each year in the Special Economic Zone Development Programme, amounting to US$12 million in the reporting year (2016: US$14 million).

Additional mining taxes, VAT, penalties and accrued interest have been accrued in respect of various disputes with the Russian and Armenian tax authorities.

Total provision for additional property taxes, mining taxes and VAT exposures, penalties and accrued interest as of 31 December 2017 is US$7 million (31 December 2016: US$14 million). During the year ended 31 December 2017 the Group has paid US$6 million related to royalty provisions identified as of 31 December 2016 and released US$6 million of accrued penalties and interest due to settlement with tax authorities at Kapan. There were no other individually significant movement in tax provisions.

During the year ended 31 December 2016 following the favourable court decisions the Group has recognised the reversal of the previously recognised and paid additional mining tax charge at Magadan Silver JSC amounting to US$14 million. There were no other individually significant movement in tax provisions during the year ended 31 December 2016.

Exploration expenses include write downs of US$2 million (2016: US$1 million) recognised within Exploration and Development assets (Note 18). Operating cash flow spent on exploration activities amounts to US$16 million (2016: US$11 million).

13. EMPLOYEE COSTS

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Wages and salaries	275	215
Social security costs	78	51
Share-based compensation	10	7
Total payroll costs	**363**	**273**
Reconciliation:		
(Less): employee costs capitalised	(40)	(26)
Add/(Less): employee costs absorbed into unsold metal inventory balances	12	(5)
Employee costs included in operating costs	**335**	**242**

The weighted average number of employees during the year ended 31 December 2017 and year ended 31 December 2016 was:

	Year ended 31 December 2017 Number	Year ended 31 December 2016 Number
Magadan	3,554	3,564
Khabarovsk	2,529	2,619
Kazakhstan	1,634	1,517
Armenia	1,007	770
Ural	810	878
Corporate and other	1,419	1,465
Total	**10,953**	**10,813**

Compensation of key management personnel is disclosed within Note 32.

14. AUDITOR'S REMUNERATION

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Fees payable to the auditor and their associates for the audit of the Company's Annual Report		
United Kingdom	0.35	0.30
Overseas	0.76	0.75
Auidt of the Company's subsidiaries	0.05	–
Total audit fees	**1.16**	**1.05**
Audit-related assurance services – half year review	0.43	0.39
Total audit and half-year review fees	**1.59**	**1.44**
Other services	0.01	0.03
Total non-audit fees	**0.01**	**0.03**
Total fees	**1.60**	**1.47**
Non-audit fees as % of audit and half-year review fees	**1%**	**2%**

15. FINANCE COSTS

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Interest expense on borrowings	57	58
Unwinding of discount on environmental obligations	3	4
Unwinding of discount on contingent considerations	3	1
Total	**63**	**63**

Interest expense on borrowings excludes borrowing costs capitalised in the cost of qualifying assets of US$8 million and US$5 million during the years ended 31 December 2017 and 2016, respectively. These amounts were calculated based on the Group's general borrowing pool and by applying an effective interest rate of 3.96% and 4.33%, respectively, to cumulative expenditure on such assets.

16. INCOME TAX

The amount of income tax expense for the years ended 31 December 2017 and 31 December 2016 recognised in profit and loss is as follows:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Current income taxes	111	139
Deferred income taxes	(22)	30
Total	**89**	**169**

A reconciliation between the reported amounts of income tax expense attributable to income before income tax is as follows:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit before income tax	443	564
Theoretical income tax expense at the tax rate of 20%	89	113
Effect of Special Economic Zone and Regional Investment project decreased tax rates	(25)	(10)
Effect of different tax rates of subsidiaries operating in other jurisdictions	5	6
Current year losses not recognized and losses previously recognised written-off	3	7
Non-deductible interest expense	5	14
Effect of dissolution of the subsidiary	–	25
Other non-taxable income and non-deductible expenses	12	14
Total income tax expense	**89**	**169**

The actual tax expense differs from the amount which would have been determined by applying the statutory rate of 20% for the Russian Federation, Kazakhstan and Armenia to profit before income tax as a result of the application of relevant jurisdictional tax regulations, which disallow certain deductions which are included in the determination of accounting profit. These deductions include share-based payment expenses, social related expenditures and other non-production costs, certain general and administrative expenses, financing expenses, foreign exchange related and other costs.

As from 1 January 2017 Omolon Gold Mining Company LLC and Magadan Silver JSC are entitled to the decreased statutory income tax rate of 17% for the operations held in the Special Economic Zone of the Russian Far East (2016: 18%), the rate of 17% was used in calculation of income tax provision and deferred tax positions for those entities. Since 1 January 2017 Svetloye LLC has received tax relief as a Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021.

In the normal course of business, the Group is subject to examination by the tax authorities throughout the Russian Federation, Kazakhstan and Armenia. Of the large operating companies of the Group, the tax authorities have audited Okhotskaya Mining and Exploration Company LLC up to 2014, Omolon Gold Mining Company LLC up to 2013, Gold of Northern Urals CJSC and Magadan Silver JSC up to 2012, Mayskoye Gold Mining Company LLC up to 2010, and Varvarinskoye JSC for the period up to 2010. According to Russian, Kazakhstan and Armenian tax legislation, previously completed audits do not fully preclude subsequent claims relating to the audited period.

Tax exposures recognised in income tax

During the year ended 31 December 2017 and the year ended 31 December 2016 no individual significant exposures were indentified as probable and provided for. Management has identified a total exposure (covering taxes and related interest and penalties) of approximately US$5 million in respect of uncertain tax positions (31 December 2016: US$4 million) which relate to income tax.

Income tax amounts included in other comprehensive income

An analysis of tax by individual item presented in the Consolidates statement of comprehensive income is presented below:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Net foreign exchange gains/(losses) on net investment in foreign operation		
Current tax expense	(2)	(6)
Deferred tax expense	(3)	(1)
Total income tax recognised in other comprehensive income	**(5)**	**(7)**

Current and deferred tax assets recognised within other comprehensive income relates to the tax losses originated by foreign currency exchange losses, allowable for tax purposes and generated by monetary items that forms part of the intragroup net investment in the foreign operation. These foreign currency exchange losses are recognised in the consolidated financial statements within foreign currency translation reserve.

Deferred taxation

Deferred taxation is attributable to the temporary differences that exist between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the reporting period.

	Environmental obligation US$m	Inventories US$m	Property, plant, and equipment and other non-current assets US$m	Trade and other payables US$m	Tax losses US$m	Long-term loans and payables US$m	Intercompany loans US$m	Other current assets US$m	Total US$m
At 1 January 2016	6	(14)	(127)	6	130	2	–	4	7
Charge to income statement	(1)	6	7	1	(37)	–	(6)	–	(30)
Acquisition (Note 4)	–	1	(21)	2	2	–	–	–	(16)
Recognised in other comprehensive income	–	–	–	–	1	–	–	–	1
Exchange differences	2	(3)	(12)	1	9	–	–	1	(2)
At 31 December 2016	**7**	**(10)**	**(153)**	**10**	**105**	**2**	**(6)**	**5**	**(40)**
Charge to income statement	–	12	(3)	(2)	18	(1)	(1)	(1)	22
Recognised in other comprehensive income	–	–	–	–	–	–	3	–	3
Exchange differences	–	(1)	(3)	–	3	–	–	–	(1)
At 31 December 2017	**7**	**1**	**(159)**	**8**	**126**	**1**	**(4)**	**4**	**(16)**

16. INCOME TAX CONTINUED

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following analysis shows deferred tax balances presented for financial reporting purposes:

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Deferred tax liabilities	(77)	(78)
Deferred tax assets	61	38
Total	**(16)**	**(40)**

The Group believes that recoverability of the recognised deferred tax asset (DTA) of US$126 million at 31 December 2017, which is related to the tax losses carried forward, is more likely than not based upon expectations of future taxable income in the Russian Federation and Kazakhstan and available tax planning strategies.

Effective from 1 January 2017 there are changes introduced to the Russian Federation tax law regarding loss carryforwards. Loss carryforwards will be limited to 50% of taxable profit in tax years 2017 through 2020. From 2021 the limitation will expire and it will be possible to fully utilise loss carryforwards against the corporate tax base in a given year. In addition to the above, the 10-year carryforward period for losses is eliminated, meaning that losses incurred from 2007 can be carried forward for an indefinite period until fully utilised.

Losses incurred in certain taxable entities in recent years have created a history of losses as of 31 December 2017. The Group has concluded that there is sufficient evidence to overcome the recent history of losses based on forecasts of sufficient taxable income in the carry-forward period.

Tax losses carried forward represent amounts available for offset against future taxable income generated by Mayskoye Gold Mining Company LLC, Varvarinskoye JSC and Bakyrchik Mining Venture LLC. Each legal entity within the Group represents a separate tax-paying component for income tax purposes. The tax losses of one entity cannot be used to reduce taxable income of other entities of the Group. Tax losses carried forward of US$448 million (2016: US$435 million), related to DTA recognised in Varvarinskoye JSC and Bakyrchik Mining Venture LLC are available during the period up to 2026, with the most significant portion expiring in 2025.

The Group's estimate of future taxable income is based on established proven and probable reserves which can be economically developed. The related detailed mine plans and forecasts provide sufficient supporting evidence that the Group will generate taxable earnings to be able to fully realise its net DTA even under various stressed scenarios. The amount of the DTA considered realisable, however, could be reduced in the near term if estimates of future taxable income during the carry forward period are reduced due to delays in production start dates, decreases in ore reserve estimates, increases in environmental obligations, or reductions in precious metal prices.

No deferred tax asset has been recognised in respect of US$90 million (2016: US$96 million) as it is not considered probable that there will be future taxable profits against which the losses can be utilised. No deferred tax was recognised in relation to Svetloye tax losses, accumulated by 1 January 2016, were the entity has received tax relief as Regional Investment Project and is entitled to the statutory income tax rate of 0% up to 2021, thus will not be able to utilise accumulated losses. Included in unrecognised tax losses are losses of US$30 million that mainly expire in 2025. Other losses may be carried forward indefinitely in accordance with enacted changes to Russian Federation legislation described above.

The deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group subsidiaries have not been recognised as the Group has determined that the undistributed profit of its subsidiaries will not be distributed in the foreseeable future. The temporary differences associated with investments in subsidiaries, for which deferred tax liabilities have not been recognised, amount to US$2,737 million (2016: US$2,147 million).

17. DIVIDENDS

Dividends recognised during the years ended 31 December 2017 and 31 December 2016 are detailed in the below:

	Dividents				
	Cents per share	US$m	Deducted from the equity during the period	Proposed in relation to the period	Paid in
Final dividend 2015	13	56	May 2016	2015	May 2016
Interim dividend 2016	9	38	September 2016	2016	September 2016
Special dividend 2016	15	64	December 2016	2016	December 2016
Final dividend 2016	18	78	March 2017	2016	May 2017
Interim dividend 2017	14	60	September 2017	2017	September 2017
Final dividend 2017	30	129	n/a	2017	n/a
Total dividends for the year ended 31 December 2016			**158**	**180**	**158**
Total dividends for the year ended 31 December 2017			**138**	**189**	**138**

18. PROPERTY, PLANT AND EQUIPMENT

	Development assets US$m	Exploration assets US$m	Mining assets US$m	Non-mining assets US$m	Capital construction in-progress US$m	Total US$m
Cost						
Balance at 31 December 2015	**518**	**98**	**1,174**	**44**	**104**	**1,938**
Additions	39	26	143	7	73	288
Transfers	(28)	–	73	(2)	(43)	–
Change in decommissioning liabilities	–	–	(3)	–	–	(3)
Acquisitions (Note 4)	–	10	152	9	–	171
Disposals and write-offs including fully depleted mines	–	(1)	(23)	(2)	(1)	(27)
Translation to presentation currency	35	7	234	9	17	302
Balance at 31 December 2016	**564**	**140**	**1,750**	**65**	**150**	**2,669**
Additions	77	35	141	4	174	431
Transfers	4	(29)	89	(9)	(55)	–
Change in decommissioning liabilities	–	–	–	–	3	3
Acquisitions (Note 4)	–	2	–	–	–	2
Disposals and write-offs including fully depleted mines	–	(2)	(32)	(1)	(1)	(36)
Translation to presentation currency	10	4	76	2	5	97
Balance at 31 December 2017	**655**	**150**	**2,024**	**61**	**276**	**3,166**
Accumulated depreciation, amortisation						
Balance at 31 December 2015	–	–	(560)	(18)	–	(578)
Charge for the period	–	–	(182)	(5)	–	(187)
Disposals and write-offs including fully depleted mines	–	–	18	1	–	19
Translation to presentation currency	–	–	(115)	(3)	–	(118)
Balance at 31 December 2016	–	–	(839)	(25)	–	(864)
Charge for the period	–	–	(227)	(5)	–	(232)
Disposals and write-offs including fully depleted mines	–	–	28	–	–	28
Translation to presentation currency	–	–	(43)	(1)	–	(44)
Balance at 31 December 2017	**–**	**–**	**(1,081)**	**(31)**	**–**	**(1,112)**
Net book value						
31 December 2016	**564**	**140**	**911**	**40**	**150**	**1,805**
31 December 2017	**655**	**150**	**943**	**30**	**276**	**2,054**

18. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Mining assets, exploration and development assets at 31 December 2017 included mineral rights with net book value which amounted to US$735 million (31 December 2016: US$756 million) and capitalised stripping costs with net book value of US$50 million (31 December 2016: US$32 million). Mineral rights of the Group comprise assets acquired upon acquisition of subsidiaries and asset acquisitions.

No property, plant and equipment was pledged as collateral at 31 December 2017 or at 31 December 2016.

19. GOODWILL

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Cost and accumulated impairment losses		
At 1 January	**17**	**14**
Translation effect	1	3
At 31 December	**18**	**17**

Goodwill has been allocated for impairment testing purposes to the following cash-generating units:

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Mayskoye	13	12
Dukat	5	5
Total	**18**	**17**

The carrying amount of goodwill is reviewed annually to determine whether it is in excess of its recoverable amount. The recoverable amount of the cash-generating unit is determined based on a fair value less costs to sell calculation. Fair value is based on the application of the Discounted Cash Flow Method (DCF) using post-tax cash flows. The DCF method is attributable to the development of proved and probable reserves.

The DCF method used is based on proved and probable reserves and uses the following key assumptions:

- production volumes;
- commodity prices;
- proved and probable reserves;
- production costs;
- Rouble exchange rates; and
- discount rates.

Recoverable reserves and resources are based on the proven and probable reserves and resources in existence at the end of the year. Estimated production volumes are based on detailed life-of-mine plans and take into account development plans for the mines approved by management as part of the long-term planning process.

The key assumptions used as at 31 December 2017 by the Group were as follows:

Commodity prices

Commodity prices are based on latest internal forecasts, benchmarked against external sources of information. In the impairment tests performed, the flat real long-term gold and silver of US$1,200 per ounce (2016: US$1,200), US$16 per ounce (2016: US$16), respectively.

Discount rate

The Group used a post-tax real discount rate of 9.0% (2016: 9.0%).

Production costs

Production costs are based on management's best estimates over the life of the mine, and reflect past experience.

Rouble exchange rates

Management have analysed RUB/US$ rate movements for the year ended 31 December 2017. For the purposes of the impairment test, RUB/US$ exchange rate is estimated at 60 RUB/US$ (2016: 60 RUB/US$).

Sensitivity analysis

For Dukat and Mayskoye management has performed an analysis as to whether a reasonably possible adverse change to any of the key assumptions would lead to impairment.

The following scenarios were considered as reasonably possible and were used for this sensitivity analysis:

- 10% simultaneous decrease in gold and silver prices over the life of mine;
- 10% decrease in Rouble exchange rates;
- 10% increase in operating expenses over the life-of-mine; and
- 0.5% increase in the discount rate applied.

Each of the sensitivities above has been determined by assuming that the relevant key assumption moves in isolation, and without regard to potential mine plan changes and other management decisions which would be taken to respond to adverse changes in existing management projections. An adverse change in a key assumption described above would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating units, except for Mayskoye CGU, where a 10% decrease in gold and silver prices would cause the carrying amount to exceed the recoverable amount by US$41 million.

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	31 December 2017		31 December 2016	
	Voting power %	Carrying value US$m	Voting power %	Carrying value US$m
Interests in associates and joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)	17.66	28	17.66	21
GRK Amikan	42.65	7	42.65	2
Prognoz Serebro LLC	5	5	n/a	–
Proeks LLC	30	2	24.9	2
Aktogai Mys LLC	50	2	25	–
Total		**44**		**25**
Loans forming part of net investment in joint ventures				
JSC South-Verkhoyansk Mining Company (Nezhda)		39		–
Prognoz Serebro LLC		13		–
Total		**52**		–
Total investments in associates and joint ventures		**96**		**25**

JSC South-Verkhoyansk Mining Company

In December 2015 Polymetal International plc entered into a joint arrangement, under which Polymetal participates in advancing the development of the Nezhdaninskoye gold deposit (Nezhda) in Yakutia, Russia. On 19 January 2016 Polymetal obtained a 15.3% interest in the joint venture entity holding the 100% of the Company for the total cash consideration of US$18 million. It was determined that the arrangement meets definition of a joint arrangement as per IFRS 11 *Joint Arrangements*, as joint control of two investors was established. As the arrangement is structured thorough the separate vehicle and the investors have rights for their share in net assets of the joint arrangement, it was concluded that joint arrangement meets definition of the joint venture and should be accounted for using equity method of accounting.

In November 2016 Polymetal increased its share in JSC South-Verkhoyansk Mining Company (Nezhda) to 17.66% for a cash consideration of US$3 million.

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20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES CONTINUED

In July 2017 Polymetal has agreed to acquire an additional 7% in the JSC South-Verkhoyansk Mining Company (Nezhda) for a cash consideration of US$8 million, from its joint venture partner, Ivan Kulakov. Simultaneously, Polymetal has acquired an option to buy out the remaining 75.3% in Nezhda (the Call Option). The Call Option premium comprises US$12 million (Note 22) in cash payable upfront and is exercisable based on the following terms:

- Following the preparation of the initial JORC-compliant ore reserve estimate for the open-pittable reserves, Polymetal will have the option to acquire the remaining stake for US$100 per ounce of attributable gold reserves (equivalent to US$75.3/oz multiplied by total reserve ounces). The total consideration shall not be less than US$105 million and not more than US$180 million. US$10 million of the consideration will be paid in cash and the remaining amount will be paid in the Polymetal's shares.
- The Call Option is exercisable between 1 February and 1 June 2018 entirely at Polymetal's discretion.
- Should Polymetal decide not to proceed with the exercise of the Call Option, Polymetal will have a put option to sell its 24.7% stake to Mr. Kulakov's investment vehicle, Pallavicino Holdings Ltd, an unrelated party, at a notional cost of EUR1,000.
- As of the reporting date, the completion of the sale and purchase of the additional 7% share in the JV and exercise of the Call Option are subject to approval by the Russian Federal Government's Commission on Foreign Investments into Companies of Strategic Importance. The exercise of the Call Option is also subject to approval by the Russian Federal Antimonopoly Service.

The Group has determined that the increase in shareholding does not represent a significant change in circumstances that indicate a change in joint control and Nezhda continues to meet the definition of a joint venture. Cash consideration of US$8 million paid for the additional stake is accounted for as part of the net investment in the joint venture. The Group has a legal right to recovery of this US$8 million in the event that the associated transaction does not receive the required approvals. The Group has performed a fair value valuation of the Call Option at origination date and, as of 31 December 2017 (Note 28), has determined that its fair value approximates to its cost of US$12 million (see Note 22).

The Directors are confident that the necessary approvals will be received before the Call Option expires, and also believe that they will be able to extend the option by taking other mitigating actions if required. However, there remains a risk that the Group will not be able to exercise the Call Option, in which case management will reassess the recoverability of the investment which could lead to a material impairment charge.

Prognoz Serebro LLC

In January 2017 the Group entered into an agreement with Polar Acquisition Ltd (PAL), under which Polymetal will participate in the development of the Prognoz silver deposit in Yakutia, Russia (Prognoz). Under the agreement, Polymetal acquired a 5% interest in Prognoz for US$5 million (including US$2 million of related expenses) in cash through the purchase of 10% of Polar Silver Resources' share capital, the entity holding a 50% interest in Prognoz, with the remaining 50% owned by a group of private investors. The arrangement allows Polymetal to acquire from PAL its remaining 45% interest in Prognoz for a consideration based on the JORC compliant reserves estimate upon completion of the technical study. The Group has determined that Prognoz constitutes a joint venture under IFRS 11 *Joint Arrangements* and therefore the investment was accounted for using the equity method.

GRK Amikan

GRK Amikan is a production company which holds 100% interest in Veduga gold deposit in the Krasnoyarsk region of the Russian Federation. During the year ended 31 December 2017 the Group purchased ore from GRK Amikan for the total amount of US$35 million (2016: US$11 million) (Note 32) and eliminated unrealised profit on inventories not yet processed against its share of net profit in GRK Amikan.

Aktogai Mys LLC

In June 2015 Polymetal purchased a 25% stake in the company Aktogai Mys LLC, which owns the Dolinnoye exploration licence in Kazakhstan Republic (including part of an intracompany loan) from the unrelated party. At the same time Polymetal also entered into an agreement to finance, organise and ensure the execution of exploration activities: to obtain permission and approvals for drilling from competent authorities, to perform no more than 20 km of exploration drilling; and to undertake technical research as well as a JORC feasibility study in exchange for a right to increase its share in the project up to 50% after the completion of these tasks.

By 2017 the earn-in conditions had been satisfied by extensive exploration and the preparation of a JORC-compliant reserve estimate for the property. In June 2017 the earn-in arrangement between Polymetal and its partner was completed and Polymetal has acquired an additional 25% interest in the Aktogai Mys LLC for a net consideration of US$1 million. In September 2017 Polymetal contributed US$2 million to Aktogai Mys charter capital.

The Group has determined that Aktogai Mys LLC continues to constitute a joint venture under IFRS 11 *Joint Arrangements* and the investment is accounted for using the equity method.

During the year ended 31 December 2017 the Group purchased ore from Aktogai Mys LLC for the total amount of US$3 million (2016: nil) (Note 32) and eliminated unrealised profit on inventories not yet processed against its share of net profit in Aktogai Mys LLC.

Proeks LLC

In November 2015 the Group acquired a 24.9% share in a diamond exploration project located in the north-west of the Russian Federation for the cash consideration of a US$2 million. During the year ended 31 December 2017 the Group increased its share in Proeks LLC to 30% for the consideration of US$1 million. The Group determined that it has significant influence in the entity and the investment is accounted for using the equity method.

Prognoz Serebro LLC, Aktogai Mys LLC and Proeks LLC do not represent equity method investments that are individually material.

The following table summarises the aggregate financial position and the Group's share of net profit/(losses) of the investments:

	Nezhda	Amikan	Non-significant investments	Total	Total
	31 December 2017 US$m	31 December 2017 US$m	31 December 2017 US$m	31 December 2017 US$m	31 December 2016 US$m
Non-current assets	77	40	46	163	99
Current assets	18	41	15	74	59
Non-current liabilities	(45)	(39)	(63)	(147)	(87)
Current liabilities	(6)	(3)	(6)	(15)	(9)
Net assets	44	39	(8)	75	62
Revenue	–	36	3	39	41
(Loss)/profit for financial period	(5)	11	(3)	3	10
Group's share in investment net income/(loss) less prior year unrecognised losses	(1)	5	(1)	3	2
Share of profit recognised for the year less inventories unrealised profit eliminations	(1)	6	(2)	3	–

21. INVENTORIES

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Inventories expected to be recovered after 12 months		
Ore stock piles	86	80
Consumables and spare parts	37	33
Total non-current inventories	**123**	**113**
Inventories expected to be recovered in the next 12 months		
Copper, gold and silver concentrate	103	95
Ore stock piles	144	157
Work in-process	57	42
Doré	13	12
Refined metals	2	3
Metal for refining	9	6
Total metal inventories	**328**	**315**
Consumables and spare parts	186	178
Total	**514**	**493**

21. INVENTORIES CONTINUED

Write-downs of metal inventories to net realisable value

The Group recognised the following (write-downs)/reversals to net realisable value of its metal inventories:

	Year ended 31 December 2017				Year ended 31 December 2016
	Khabarovsk US$m	Magadan US$m	Kazakhstan US$m	Total operating segments US$m	Total operating segments US$m
Ore stock piles	(3)	(11)	(1)	(15)	(14)
Ore in heap leach piles	–	(3)	–	(3)	(5)
Copper, gold and silver concentrate	–	2	–	2	2
Total	**(3)**	**(12)**	**(1)**	**(16)**	**(21)**

The key assumptions used as at 31 December 2017 in determining net realisable value of inventories (including the commodity price assumptions for long-term stockpiles) were consistent with those used in the goodwill impairment review (Note 19). For short-term metal inventories applicable forward prices as of 31 December 2017 were used.

During the year ended 31 December 2017 the Group provided for obsolete consumables and spare parts inventory in the amount of US$3 million (year ended 31 December 2016: write-down of US$6 million).

The amount of inventories held at net realisable value at 31 December 2017 is US$60 million (31 December 2016: US$45 million).

22. TRADE RECEIVABLES AND OTHER FINANCIAL INSTRUMENTS

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Receivables from provisional copper, gold and silver concentrate sales	26	35
Other receivables	15	25
Accounts receivable from related parties (Note 32)	8	–
Less: Allowance for doubtful debts	(2)	(3)
Total trade and other receivables	**47**	**57**
Call Option related to the Nezhda acquisition (Note 20)	12	–
Short-term loans provided to related parties (Note 32)	7	7
Short-term loans provided to third parties	5	6
Total other short-term financial instruments	**24**	**13**
Total	**71**	**70**

The average credit period on sales of copper, gold and silver concentrate at 31 December 2017 was 20 days (2016: 20 days). No interest is charged on trade receivables. The Group's allowance for doubtful debt relates to its non-trade receivables. There are no trade receivables either past due or impaired as at 31 December 2017 (31 December 2016: US$ nil).

23. CASH AND CASH EQUIVALENTS

		Year ended	
		31 December 2017 US$m	31 December 2016 US$m
Bank deposits	– foreign currencies	11	31
Current bank accounts	– RUB	2	8
	– foreign currencies	23	9
Total		**36**	**48**

Bank deposits as at 31 December 2017 bear an interest rate 9% for Kazakh Tenge (KZT) deposits (2016: 0.3%-6% per annum for US Dollar deposits; 16% per annum for KZT deposits), total amount being demand deposits as of 31 December 2017 (2016: with an average maturity at inception 15 days with US$14 million being demand deposits).

24. BORROWINGS

Borrowings at amortised cost:

		Actual interest rate at		31 December 2017			31 December 2016		
	Type of rate	31 Dec 2017	31 Dec 2016	Current US$m	Non-current US$m	Total US$m	Current US$m	Non-current S$m	Total US$m
Secured loans from third parties									
US Dollar denominated	floating	–	3.85%	–	–	–	98	638	736
US Dollar denominated	fixed	4.10%	4.10%	–	436	436	–	61	61
Total				**–**	**436**	**436**	**98**	**699**	**797**
Unsecured loans from third parties									
US Dollar denominated	floating	3.73%	3.96%	–	834	834	–	500	500
US Dollar denominated	fixed	6.17%	7.50%	26	152	178	–	78	78
Euro denominated	fixed	2.85%	2.85%	–	8	8	–	3	3
Total				**26**	**994**	**1,020**	**–**	**581**	**581**
				26	**1,430**	**1,456**	**98**	**1,280**	**1,378**

Bank loans

The Group has a number of borrowing arrangements with various lenders. These borrowings consist of unsecured and secured loans and credit facilities denominated in US Dollars. Where security is provided it is in form of a pledge of revenue from certain sales agreements.

Movements in borrowings are reconciled as follows:

	1 January US$m	Borrowings obtained US$m	Repayments of borrowings US$m	Net foreign exchange losses US$m	Exchange differences on translating foreign operations US$m	Arrangement fee amortisation US$m	31 December 2017 US$m
Year ended 31 December 2016	1,350	1,436	(1,410)	(108)	108	2	1,378
Year ended 31 December 2017	**1,378**	**3,108**	**(3,033)**	**(14)**	**14**	**3**	**1,456**

At 31 December 2017, the Group had undrawn borrowing facilities of US$1,361 million (31 December 2016: US$998 million). The Group complied with its debt covenants throughout 2017 and 2016.

The table below summarises maturities of borrowings:

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Year ended, 31 December 2017	–	98
31 December 2018	26	632
31 December 2019	105	538
31 December 2020	248	110
31 December 2021	513	–
31 December 2022	414	–
31 December 2023	100	–
31 December 2024	50	–
Total	**1,456**	**1,378**

25. ENVIRONMENTAL OBLIGATIONS

Environmental obligations include decommissioning and land restoration costs and are recognised on the basis of existing project business plans as follows:

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Opening balance	**37**	**33**
Changes in estimates for the year:		
Change in estimate of environmental obligations	(4)	(5)
Decommissioning liabilities recognised in Propety, plant and equipment (Note 18)	3	(3)
Rehabilitation liabilities	–	1
Effect of unwinding of discount	3	4
Acquired in business combinations	–	2
Translation effect	–	5
Closing balance	**39**	**37**

The principal assumptions are related to Russian Rouble, Kazakh Tenge and Armenian Dram projected cash flows. The assumptions used for the estimation of environmental obligations were as follows:

	2017	2016
Discount rates	7.23%-14.67%	7.1%-12.77%
Inflation rates	1.57%-8.5%	(0.45%)-8.5%
Expected mine closure dates	1-34 years	1-34 years

The Group does not hold any assets that are legally restricted for purposes of settling environmental obligations.

26. TRADE PAYABLES AND ACCRUED LIABILITIES

	Year ended 31 December 2017 US$m	31 December 2016 US$m
Trade payables	62	51
Accrued liabilities	40	36
Labour liabilities	14	12
Provision for investment in Special Economic Zone (Note 12)	10	14
Account payable to related parties	6	4
Other payables	3	8
Consideration payable to Dundee (Note 4)	–	5
Advances received	–	3
Total	**135**	**133**

In 2017, the average credit period for payables was 25 days (2016: 31 days). There was no interest charged on the outstanding payables balance during the credit period. The Group has financial risk management policies in place, which include budgeting and analysis of cash flows and payment schedules to ensure that all amounts payable are settled within the credit period.

27. COMMITMENTS AND CONTINGENCIES

Commitments

Capital commitments

The Group's budgeted capital expenditure commitments as at 31 December 2017 amounted to US$46 million (2016: US$64 million).

Social and infrastructure commitments

During the year ended 31 December 2016 the Group signed a memorandum with East-Kazakhstan Oblast Administration (local Kazakhstan government), where the Group (namely its subsidiaries Bakyrchik Mining Venture LLC and Inter Gold Capital LLC) agrees to participate in financing of certain social and infrastructure development project of the region. During the year ended 31 December 2017 the Group paid US$2 million (2016: US$2 million) under this programme and the total social expense commitment as at 31 December 2017 amounts to US$28 million, payable in the future periods as follows:

	31 December 2017 US$m
Within one year	2
From one to five years	22
Thereafter	4
Total	**28**

Forward sale commitments

The Group has certain physical gold and silver forward sale commitments which are priced at the prevailing market price, calculated with reference to the LBMA or LME gold price, which are accounted for as executed as the Group expects to and has historically physically delivered into these contracts.

Operating leases: Group as a lessee

During the year ended 31 December 2017 the Group recognised US$7 million as operating lease expenses (2016: US$5 million).

The land in the Russian Federation and Kazakhstan on which the Group's production facilities are located is owned by the state. The Group leases this land through operating lease agreements, which expire in various years through to 2058.

Future minimum lease payments due under non-cancellable operating lease agreements at the end of the period were as follows:

	31 December 2017 US$m	31 December 2016 US$m
Within one year	3	2
From one to five years	5	3
Thereafter	4	2
Total	**12**	**7**

Contingencies

Operating environment

Emerging markets such as Russia and Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia and Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transaction and activity of the companies of the Group may be challenged by the relevant regional and federal authorities and as a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

During 2017 and 2016 the Group was involved in a number of litigations in Russia, Kazakhstan and Armenia. Management identified a total exposure (covering taxes and related interest and penalties) of US$7 million in respect of contingent liabilities (2016: US$13 million), including US$5 million related to income tax (2016: US$4 million).

28. FAIR VALUE ACCOUNTING

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 31 December 2017 and 31 December 2016, the Group held the following financial instruments:

	31 December 2017			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Receivables from provisional copper, gold and silver concentrate sales	–	26	–	26
Nezhda option	–	–	12	12
Contingent consideration liability	–	–	(62)	(62)
	–	**26**	**(50)**	**(24)**

	31 December 2016			
	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Receivables from provisional copper, gold and silver concentrate sales	–	35	–	35
Contingent consideration liability	–	–	(76)	(76)
	–	**35**	**(76)**	**(41)**

During the reporting periods, there were no transfers between Level 1 and Level 2.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables and short-term debt recorded at amortised cost approximate to their fair values because of the short maturities of these instruments. The estimated fair value of the Group's debt, calculated using the market interest rate available to the Group as at 31 December 2017, is US$1,233 million, and the carrying value as at 31 December 2017 is US$1,456 million (see Note 24). Carrying values of the other long-term loans provided to related parties as at 31 December 2017 and 31 December 2016 approximated to their fair values.

Receivables from provisional copper, gold and silver concentrate sales

The fair value of receivables arising from copper, gold and silver concentrate sales contracts that contain provisional pricing mechanisms is determined using the appropriate quoted forward price from the exchange that is the principal active market for the particular metal. As such, these receivables are classified within Level 2 of the fair value hierarchy.

Contingent consideration liabilities

The table below sets forth a summary of changes in the fair value of the Group's Level 3 financial liabilities for the year ended 31 December 2017:

	31 December 2017							31 December 2016
	Omolon US$m	Kyzyl US$m	Primorskoye US$m	Lichkvaz US$m	Kapan US$m	Komar US$m	Total US$m	Total US$m
Opening balance	15	19	8	7	9	18	76	26
Additions	–	–	–	–	•	–	–	29
Change in fair value, included in profit or loss	(1)	(7)	2	(5)	2	7	(2)	22
Unwinding of discount (Note 15)	1	–	–	1	1	–	3	1
Settlement though issue of shares (Note 21)	–	–	(10)	–	–	–	(10)	–
Cash settlement	(4)	–	–	–	(1)	–	(5)	(2)
Total contigent consideration	**11**	**12**	**–**	**3**	**11**	**25**	**62**	**76**
Less current portion of contingent consideration liability	(4)	–	–	–	(1)	–	(5)	(14)
	7	**12**	**–**	**3**	**10**	**25**	**57**	**62**

Omolon

In 2008, the Group recorded a contingent consideration liability related to the acquisition of 98.1% of the shares in Omolon Gold Mining Company LLC (Omolon). The fair value of the contingent consideration liability was determined using a valuation model which simulates expected production of gold and silver at the Kubaka mine and future gold and silver prices to estimate future revenues of Omolon. This liability is revalued at each reporting date based on 2% of the life-of-mine revenues with the resulting gain or loss recognised in the consolidated income statement. The liability recognised as at 31 December 2017 was US$11 million, including current portion of US$4 million.

Kyzyl

During the year ended 31 December 2014 the Group completed the acquisition of the Kyzyl gold project in Kazakhstan. The fair value of the related contingent consideration liability was estimated using the Monte Carlo model. The liability was revalued at the 31 December 2017 using the same method with updated inputs as of reporting date and amounts to US$12 million (2016: US$19 million).

Primorskoye

During the year ended 31 December 2015 the Group recorded a contingent consideration liability related to the acquisition of 100% interest in Primorskoye. Deferred conditional cash consideration, which is determined as the highest of US$13,333 per tonne of contained silver equivalent (translating into US$0.415 per silver equivalent ounce) based on the audited reserves estimate of the deposit, and US$8 million, was revalued at 31 December 2016 at US$8 million. Following the determination of the mineral resource estimate at March 2017, the deferred consideration was calculated at US$9.7 million and settled by 815,348 newly issued Polymetal International shares (Note 30).

Lichkvaz

During the year ended 31 December 2015 the Group completed the acquisition of Lichkvaz CJSC (Lichkvaz), the company owning the Lichkvaz exploration licence in Armenia (Note 4). The fair value of the related contingent consideration liability is calculated using a valuation model which simulates expected production of metals and future gold, silver and copper prices to estimate future value of the metals in the actually extracted ore. The liability recognised at 31 December 2017 was US$3 million.

Kapan

During the year ended 31 December 2016 the Group completed the acquisition of DPMK, the company owning the Kapan mine and processing plant in Armenia (Note 4). The seller is entitled to receive a 2% NSR (Net Smelter Return) royalty on future production from the Kapan Gold Mine capped at US$25 million. At the 31 December 2017, the fair value of the contingent consideration was estimated at US$11 million, including current portion of US$1 million.

Komar

On 1 August 2016 the Group completed the acquisition of Orion Minerals LLP, the holding company for the Komarovskoye Gold Deposit (Komar) in the Republic of Kazakhstan (Note 4). The seller is entitled to the contingent consideration that was determined based on the LOM model of the Komarovskoye mine and calculated using Monte Carlo modelling. At the 31 December 2017, the fair value of the contingent consideration was estimated at US$25 million (2016: US$18 million), with an increase due to the growth in ore reserves and change in the mine plan.

Assumptions used in the valuation of the Omolon, Kapan and Lichkvaz are consistent with those used in goodwill impairment test (Note 19), such as long-term metal prices and discount rates. Estimated production volumes are based on life of mine plans and are approved by management as part of the long-term planning process.

Monte-Carlo modelling for Kyzyl and Komarovskoye contingent consideration liabilities was performed with following inputs:

- Gold price volatility: 16.19% – 19.58% (2016: 16.23% – 18.23%)
- Share price volatility: 40.5% (2016: 41.9%)
- Constant correlation between gold and share price: 86% (2016: 90%)
- Dividend yield: 2%.

Nezhda Call Option

The Group has valued the Nezhda Call Option (Note 20) using the Black-Scholes option valuation model, with share price volatility assumption approximating to 30%. Exercise price of the option was assessed based on the project NPV, calculated using Nezhda JORC ore reserves and mineral resources available and gold price and discount rates consistent with assumptions used for the goodwill impairment testing (Note 19). The fair value of the option approximates to its cost of US$12 million as of 31 December 2017.

The Directors consider that a reasonably possible change in a valuation assumption would not have a material impact on the financial statements for contingent considerations payable.

Commodity forward contracts

The Group enters into forward contracts for the physical delivery of metals which will be priced according to the prevailing London Bullion Market Association or London Metal Exchange index. The Group's policy is not to enter into fixed priced contracts. The forward sales contracts qualify for the normal purchase/sales or 'own use' exemption for accounting purposes and are outside the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.

29. RISK MANAGEMENT ACTIVITIES

Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy is to provide value to stakeholders by maintaining an optimal short-term and long-term capital structure, reducing cost of capital, and to safeguard the ability to support the operating requirements on an ongoing basis, continuing the exploration and development activities.

The capital structure of the Group consists of net debt (borrowings as detailed in Note 24 offset by cash and bank balances as detailed in Note 23 and equity of the Group comprising the Stated Capital account, reserves and retained earnings as detailed in Note 30.

The Group's committed borrowings are subject to certain financial covenants. Compliance with covenants is reviewed on a semi-annual basis and the Group's Board is satisfied with forecast compliance with covenants on those borrowings.

The Group's Board reviews the capital structure of the Group on a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, derivatives, trade and other payables. The Group has various financial assets such as accounts receivable, loans advanced and cash and cash equivalents.

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Financial assets		
Financial assets at FVTPL		
Receivables from provisional copper, gold and silver concentrate sales	26	35
Call Option related to the Nezhda acquisition (Note 20)	12	–
Loans and receivables, including cash and cash equivalents		
Cash and cash equivalents	36	48
Trade and other receivables	33	35
Non-current loans and receivables	15	10
Total financial assets	**122**	**128**
Financial liabilities		
Financial liabilities at FVTPL		
Contingent consideration liability	62	76
Financial liabilities at amortised cost		
Borrowings	1,456	1,378
Trade and other payables	81	82
Total financial liabilities	**1,599**	**1,536**

Trade and other payables exclude employee benefits and social security.

The main risks arising from the Group's financial instruments are foreign currency and commodity price risk, interest rate, credit and liquidity risks.

At the end of the reporting period, there are no significant concentrations of credit risk for receivables designated at FVTPL. The carrying amount reflected above represents the Group's maximum exposure to credit risk for such receivables.

Derivative financial instruments

Presented below is a summary of the Group's derivative contracts recorded on the consolidated balance sheet at fair value.

		Year ended	
	Consolidated balance sheet location	**31 December 2017 US$m**	31 December 2016 US$m
Receivable from provisional copper, gold and silver concentrate sales	Accounts receivable	**26**	35

		Year ended	
	Location of gain (loss) recorded in profit or loss	**31 December 2017 US$m**	31 December 2016 US$m
Receivable from provisional copper, gold and silver concentrate sales	Revenue	**2**	(7)

Foreign currency and commodity price risk

In the normal course of business the Group enters into transactions for the sale of its commodities, denominated in US Dollars. In addition, the Group has assets and liabilities in a number of different currencies (primarily Russian Rouble and Kazakh Tenge). As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign currency exchange rates.

The Group does not currently use derivative instruments to hedge its exposure to foreign currency risk.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2017 and 31 December 2016 were as follows:

	Assets		Liabilities	
	31 December 2017 US$m	31 December 2016 US$m	**31 December 2017 US$m**	31 December 2016 US$m
US Dollar	53	52	400	540
Euro	2	–	11	5
GBP	–	7	–	–
Total	**55**	**59**	**411**	**545**

US Dollar denominated assets and liabilities disclosed above exclude balances outstanding held in Polymetal International plc and its intermediate holding companies, where the functional currency is US Dollar (US$) as described in Note 2.

Currency risk is monitored on a monthly basis by performing a sensitivity analysis of foreign currency positions in order to verify that potential losses are at an acceptable level.

The table below details the Group's sensitivity to changes in exchange rates by 10% which is the sensitivity rate used by the Group for internal analysis. The analysis was applied to monetary items denominated in respective currencies at the reporting dates.

	Year ended	
	31 December 2017 US$m	31 December 2016 US$m
Profit or loss (RUB to US Dollar)	(15)	(41)
Profit or loss (KZT to US Dollar)	(20)	(7)

Provisionally priced sales

Under a long-established practice prevalent in the industry, copper, gold and silver concentrate sales are provisionally priced at the time of shipment. The provisional prices are finalised in a contractually specified future period (generally one to three months) primarily based on quoted LBMA or LME prices. Sales subject to final pricing are generally settled in a subsequent month. The forward price is a major determinant of recorded revenue.

Interest rate risk

The Group is exposed to interest rate risk because entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Group does not currently hedge its exposure to interest rate risk.

The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk section of this note.

For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would have decreased/increased by US$9 million (2016: US$13 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

The Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group. The Group's financial instruments that are potentially exposed to concentration of credit risk consist primarily of cash and cash equivalents and loans and receivables.

Accounts receivable are regularly monitored and assessed and where necessary an adequate level of provision is maintained. Trade accounts receivable at 31 December 2017 and 31 December 2016 are represented by provisional copper, gold and silver concentrate sales transactions. A significant portion of the Group's trade accounts receivable is due from reputable export trading companies. With regard to other loans and receivables the procedures of accepting a new customer include checks by a security department and responsible on-site management for business reputation, licences and certification, creditworthiness and liquidity. Generally, the Group does not require any collateral to be pledged in connection with its investments in the above financial instruments. Credit limits for the Group as a whole are not set up.

29. RISK MANAGEMENT ACTIVITIES CONTINUED

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The major financial assets at the balance sheet date other than trade accounts receivable presented in Note 23 are cash and cash equivalents at 31 December 2017 of US$36 million (2016: US$48 million).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group manages liquidity risk by maintaining detailed budgeting, cash forecasting processes and matching the maturity profiles of financial assets and liabilities to help ensure that it has adequate cash available to meet its payment obligations.

The following tables detail the Group's remaining contractual maturity for its financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Presented below is the maturity profile of the Group's financial liabilities as at 31 December 2017:

	Less than 3 months	3-12 months	1-5 years	More than 5 years	31 December 2017 US$m Total	31 December 2016 US$m Total
Borrowings	16	71	1,427	155	1,669	1,506
Accounts payable and accrued expenses	63	18	–	–	81	82
Contigent consideration (Note 28)	2	4	28	41	75	77
Total	**81**	**93**	**1,455**	**196**	**1,825**	**1,665**

30. STATED CAPITAL ACCOUNT AND RETAINED EARNINGS

As at 31 December 2017, the Company's issued share capital consisted of 430,115,480 ordinary shares (2016: 428,262,338 ordinary shares) of no par value, each carrying one vote. The Company does not hold any shares in treasury (2016: none). The ordinary shares reflect 100% of the total issued share capital of the Company.

The movements in the stated capital account in the year were as follows:

	Stated capital account no. of shares	Stated capital account US$m
Balance at 31 December 2015	**424,650,138**	**1,969**
Issue of shares in accordance with Deferred Share Awards plan	110,850	1
Issue of shares for Kapan (Note 4)	1,481,785	15
Issue of shares to acquire an additional 25% interest in Tarutin	898,875	14
Issue of shares for Saum Mining Company LLC (Note 4)	1,120,690	11
Balance at 31 December 2016	**428,262,338**	**2,010**
Issue of shares for Tarutin	893,575	10
Issue of shares for Primorskoye contingent consideration (Note 28)	815,348	10
Issue of shares in accordance with Deferred Share Awards plan	144,219	1
Balance at 31 December 2017	**430,115,480**	**2,031**

In January 2017 the Group increased its interest in Vostochny Basis LLC (holder of the licence for the Tarutinskoye copper deposit (Tarutin) by 25% (from 75% to 100%). The Group purchased the additional 25% from an unrelated party for a consideration of US$10 million, payable through the issue of 893,575 new Polymetal International plc shares. The Group has previously determined that Vostochny Basis LLC meets the definition of a subsidiary and therefore it was consolidated from the date of the 25% share acquisition. The increase in interest in Tarutin was recognised as an acquisition of the non-controlling interest and recognised interest within equity. As of 31 December 2017 and during the years ended 31 December 2017 and 31 December 2016 Tarutin did not not give rise to a significant non-controlling interest to be presented within equity, income statement and statement of comprehensive income.

Reserves available for distribution to shareholders are based on the available cash in the Company under Jersey law. As Russian, Kazakh and Armenian legislation identifies the basis of distribution of the dividends as accumulated profit, the ability to distribute cash up to the Company from the Russian, Kazakh and Armenian operating companies will be based on the statutory historical information of each stand-alone entity. Statutory financial statements in the Russian Federation are prepared in accordance with Russian accounting standards which differs from IFRS, while Kazakhstan and Armenia have adopted IFRS from 1 January 2006 and 1 January 2011, respectively. However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation; consequently, actual distributable reserves may differ from the amount of accumulated profit in accordance with statutory financial statements.

Weighted average number of shares: Diluted earnings per share

Both basic and diluted earnings per share were calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of outstanding common shares before/after dilution respectively. The calculation of the weighted average number of outstanding common shares after dilution is as follows:

	Year ended 31 December 2017	Year ended 31 December 2016
Weighted average number of outstanding common shares	429,880,907	426,135,182
Dilutive effect of share appreciation plan	5,830,775	259,452
Weighted average number of outstanding common shares after dilution	**435,711,682**	**426,394,634**

There were no adjustments required to earnings for the purposes of calculating the diluted earnings per share during the year ended 31 December 2017 (year ended 31 December 2016: nil).

At 31 December 2017 the outstanding LTIP awards issued under 2014-2017 tranches represent dilutive potential ordinary shares with respect to earnings per share from continuing operations as these are in the money as of reporting date (31 December 2016: all tranches represent anti-dilutive potential ordinary shares as these were out of money).

The awards issued under management bonus deferral award plan are dilutive as of 31 December 2017 and 31 December 2016 being contingently issued shares and are included in the calculation of diluted EPS based on the weighted average number of shares that would be issuable if the end of the reporting period were the end of the contingency period.

31. SHARE-BASED PAYMENTS

For the year ended 31 December 2017, share-based compensation in the amount of US$10 million including US$1 million of management bonus deferral award (2016: US$7 million and US$1 million, respectively) was recognised in general, administrative and selling expenses in the consolidated income statement (Note 11). As of reporting date the unrecognised share-based compensation expense related to non-vested equity-settled stock appreciated rights is detailed as follows:

	31 December 2017			31 December 2016	
	Number of option granted shares	Expected amortisation period years	Unrecognised share-based compensation expense US$m	Expected amortisation period years	Unrecognised share-based compensation expense US$m
Tranche 2014	2,567,977	0.3	1	1.3	3
Tranche 2015	2,636,366	1.3	3	2.3	6
Tranche 2016	2,039,787	2.3	6	3.3	7
Tranche 2017	2,070,002	3.3	12	n/a	–
			22		16

During the year ended 31 December 2017 144,219 shares under management bonus plan deferral award were released and issued in accordance with the plan (2016: 110,850). The assumptions used in the calculation and fair value of one award, calculated based on those assumptions, are set in the table below:

	Tranche 2014	Tranche 2015	Tranche 2016	Tranche 2017
Risk free rate	1.60%	1.17%	1.11%	1.60%
Expected volatility	46.14%	43.70%	42.05%	41.65%
Constant correlation	34.49%	30.86%	32.32%	34.49%
Expected life, years	4	4	4	4
Share price at the date of grant (US$)	13.3	8.2	10.3	13.3
Fair value of one award (US$)	3.2	4.6	4.6	6.9

32. RELATED PARTIES

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Transactions with related parties		
Purchases of ore from equity method investments (Note 20)	38	11
Other sales recognised in other operating expenses, net	12	2

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Balances outstanding as of end of reporting period		
Loans accounted for as a part of the net investment in joint venture	52	–
Short-term loans provided to equity method investments	8	7
Long-term loans provided to equity method investments	6	1
Accounts receivable from equity method investments	8	–
Interest receivable from equity method investments	2	1
Accounts payable to equity method investments	7	(4)
	83	**5**

Related parties are considered to include shareholders, affiliates, associates, joint ventures and entities under common ownership and control with the Group and members of key management personnel.

During the year ended the Group purchased ore from its associate GRK Amikan (Note 20) for the amount of US$35 million (2016: US$11 million) and its joint venture Aktogai Mys for the amount of US$3 million (2016: nil). Other sales recognised within other operating expenses are mainly represented by sales of machinery and equipment.

Carrying values of other long-term loans provided to related parties as at 31 December 2017 and 31 December 2016 approximate their fair values.

The amounts outstanding at the balance sheet dates are unsecured and expected to be settled in cash. No expense has been recognised in the reporting period for bad or doubtful debts in respect of the amounts owed by related parties.

The remuneration of Directors and other members of key management personnel during the periods was as follows:

	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Share-based payments	2	2
Short-term benefits of board members	2	2
Short-term employee benefits	2	1

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 31 December 2017 US$m	Year ended 31 December 2016 US$m
Profit before tax		443	564
Adjustments for:			
Depreciation and depletion recognised in the statement of comprehensive income		214	155
Write-down of exploration assets and construction in progress	18	3	2
Write-down of metal inventories to net realisable value	21	16	21
Write-down of non-metal inventories to net realisable value	21	3	6
Additional mining taxes and VAT exposures, penalties and accrued interest, net	12	(8)	(12)
Provision for investment in Special Econonic Zone	12	12	14
Share-based compensation	11, 31	10	7
Finance costs	15	63	63
Finance income		(4)	(3)
Loss on disposal of property, plant and equipment	12	1	1
Rehabilitation expenses		–	1
Change in contingent consideration liability	28	(2)	22
Share of profit of associates and joint ventures	20	(3)	–
Foreign exchange (loss)/gain, net		10	(65)
Change in estimate of environmental obligations		(4)	(5)
Other non-cash expenses		4	1
Movements in working capital			
Increase in inventories		(35)	(50)
(Decrease)/ Increase in VAT receivable		(31)	14
(Increase)/Decrease in trade and other receivables		14	(4)
(Increase)/Decrease in prepayments to suppliers		(6)	2
(Decrease)/Increase in trade and other payables		(20)	17
Increase/(Decrease) in other taxes payable		10	(6)
Cash generated from operations		**690**	**745**
Interest paid		(63)	(61)
Interest received		1	1
Income tax paid		(95)	(155)
Net cash generated by operating activities		**533**	**530**

Significant non-cash transactions during the year ended 31 December 2017 represent the issuance of shares to settle Primorskoye contingent consideration of US$10 million and the issuance of shares to acquire Tarutin non-controlling interest of US$10 million (2016: the issuance of shares amounting to US$40 million in respect of the business combinations, the acquisition of assets and acquisition of non-controlling interest).

Cash flows related to exploration amounted to US$33 million for the year ended 31 December 2017 (2016: US$56 million). During the year ended 31 December 2017, the capital expenditure related to the new projects, increasing the operating capacity amounts to US$173 million (2016: US$121 million).

34. SUBSEQUENT EVENTS

In February 2018 the Group entered into a legally binding agreement to increase its stake in the Prognoz Serebro LLC (Note 12) from 5% to 50% through the acquisition of a further 45% ownership in the asset from Polar Acquisition Limited (PAL) for a total consideration of US$72 million to be paid in Polymetal shares. 90% of the consideration shares will be subject to a lock–up period of 180 days. Additionally Polymetal commits to pay PAL a net smelter return royalty of between 2% and 4% (pro rated by the 45% stake being acquired), which will be dependent on the applicable statutory mineral extraction tax rate at the time when the asset enters commercial production. The royalty agreement is subject to an agreed cap. The transaction is expected to close in first quarter 2018, subject to receipt of the required regulatory approvals.

ALTERNATIVE PERFORMANCE MEASURES

Introduction

The financial performance reported by the Group contains certain Alternative Performance Measures (APMs) disclosed to compliment measures that are defined or specified under International Financial Reporting Standards (IFRS). APMs should be considered in addition to, and not as a substitute for, measures of financial performance, financial position or cash flows reported in accordance with IFRS.

The Company believes that these measures, together with measures determined in accordance with IFRS, provide the readers with valuable information and an improved understanding of the underlying performance of the business.

APMs are not uniformly defined by all companies, including those in the Group's industry. Therefore, the APMs used by the Group may not be comparable to similar measures and disclosures made by other companies.

Purpose

APMs used by the Group represent financial KPIs for clarifying the true financial performance of the Company and measuring it against strategic objectives, given the following background:

- widely used by the investor and analyst community in mining sector and, together with ifrs measures, apms provide a holistic view of the company;
- applied by investors to assess earnings quality, facilitate period to period trend analysis and forecasting of future earnings, understand performance through eyes of management;
- highlight key value drivers within the business that may not be obvious in the financial statements;
- ensure comparability of information between reporting periods and operating segments by adjusting for uncontrollable or one-off factors which impact upon ifrs measures;
- used internally by management to assess financial performance of the group and its operating segments;
- used in the group's dividend policy; and
- certain apms are used in setting directors and management remuneration.

APMs and justification for their use

Group APM	Closest equivalent IFRS measure	Adjustments made to IFRS measure	Rationale for adjustments
Underlying net earnings	Profit/(loss) for the financial period attributable to equity shareholders of the Company	• Write-down of metal inventory to net realisable value (post-tax) • Foreign exchange (gain)/loss (post-tax) • Change in fair value of contingent consideration liability (post-tax)	• Exclude the impact of key significant one-off non-recurring items and significant non-cash items (other than depreciation) that can mask underlying changes in core performance
Adjusted EBITDA	Profit/(loss) before income tax	• Finance cost (net) • Depreciation and depletion • Write-down of metal and non-metal inventory to net realisable value • Share based compensation • Bad debt allowance • Net foreign exchange losses • Change in fair value of contingent consideration liability • Rehabilitation costs • Additional mining taxes, VAT, penalties and accrued interest	• Exclude the impact of certain non-cash element, either recurring or non-recurring, that can mask underlying changes in core operating performance, to be a proxy for operating cash flow generation
Net debt	• Net total of current and non-current borrowings • Cash and cash equivalents	n/a	
Net debt/ EBITDA ratio	No equivalent	n/a	• Measures the Group's net indebtedness that provides an indicator of the overall balance sheet strength • Used by creditors in bank covenants
Free cash flow	Cash flows from operating activity less free cash flow from investing activities	Less cash flows used in investing activities, excluding acquisition costs in business combinations and investments in associates and joint ventures	• Reflect cash generating from operations after meeting existing capital expenditure commitments • Measures the success of the Company in turning profit into cash through the strong management of working capital and capital expenditure
Total cash costs (TCC)	• Total cash operating costs • General, administrative & selling expenses	• Depreciation expense • Rehabilitation expenses Write-down of inventory to net realisable value • Intersegment unrealised profit elimination • Idle capacities and abnormal production costs • Exclude Corporate and Other segment and development assets	• Calculated according to common mining industry practice using the provisions of Gold Institute Production Cost Standard. • Give a picture of a Company's current ability to extract its resources at a reasonable cost and generate earnings and cash flows for use in investing and other activities
All-in sustaining cash costs (AISC)	• Total cash operating costs • General, administrative & selling expenses	• AISC is based on total cash costs, and adds items relevant to sustaining production.	• Include the components identified in World Gold Council's Guidance Note on Non-GAAP Metrics – All-in Sustaining Costs and All-in Costs (June 2013), which is a non-IFRS financial measure • Provide investors with better visibility into the true cost of production

OPERATIONAL STATISTICS

DUKAT

MINING	Dukat 2017	Dukat 2016	Dukat change %	Goltsovoye 2017	Goltsovoye 2016	Goltsovoye change %	Lunnoye 2017	Lunnoye 2016	Lunnoye change %
Stripping, Kt	–	–	NA	–	–	NA	–	–	NA
Underground development, m	33,813	35,066	-4%	6,904	6,010	15%	8,174	5,249	56%
Ore mined, Kt	1,605	1,661	-3%	190	183	4%	552	435	27%
Open-pit	–	–	NA	–	–	NA	–	–	NA
Underground	1,605	1,661	-3%	190	183	4%	552	435	27%
Metal in ore mined (grades), g/t									
gold	0.4	0.7	-36%	–	–	NA	1.4	1.5	-11%
silver	306	378	-19%	366	370	-1%	334	434	-23%

MINING	Perevalnoye 2017	Perevalnoye 2016	Perevalnoye change %	Nachalny-2 2017	Nachalny-2 2016	Nachalny-2 change %	Terem 2017	Terem 2016	Terem change %	Total 2017	Total 2016	Total change %
Stripping, Kt	–	–	NA	273	–	NA	–	–	NA	273	–	NA
Underground development, m	3,223	–	NA	–	–	NA	2,167	–	NA	54,281	46,325	17%
Ore mined, Kt	–	–	NA	48	–	NA	21	–	NA	2,416	2,278	6%
Open-pit	–	–	NA	48	–	NA	–	–	NA	48	–	NA
Underground	–	–	NA	–	–	NA	21	–	NA	2,368	2,278	4%
Metal in ore mined (grades), g/t												
gold	–	–	NA	–	–	NA	–	–	NA	0.6	0.8	-22%
silver	–	–	NA	283	–	NA	565	–	NA	319	388	-18%

PRODUCTION	Omsukchan concentrator 2017	Omsukchan concentrator 2016	Omsukchan concentrator change %	Lunnoye processing plant 2017	Lunnoye processing plant 2016	Lunnoye processing plant change %	Total 2017	Total 2016	Total change %
Ore processed, Kt	1,979	1,938	2%	460	435	6%	2,439	2,374	3%
Metal in ore processed (grades), g/t									
gold	0.4	0.6	-26%	1.2	1.5	-17%	0.6	0.8	-22%
silver	321	372	-14%	352	436	-19%	327	384	-15%
Recoveries									
gold	86.3%	86.2%	0%	90.3%	91.9%	-2%			
silver	88.6%	85.4%	4%	92.8%	91.6%	1%			
Production									
gold, Koz	24	32	-23%	17	20	-14%	41	51	-20%
silver, Moz	17.7	19.8	-11%	4.8	5.6	-14%	22.5	25.4	-12%
Gold equivalent, Koz	245	279	-12%	77	90	-14%	322	369	-13%
Total cash costs, US$/SE oz							8.2	6.4	28%
All-in sustaining cash costs, US$/SE oz							10.4	8.0	30%
Adjusted EBITDA, US$m							180	283	-36%

ALBAZINO

MINING	2017	2016	Change %
Stripping, Kt	19,586	18,078	8%
Underground development, m	7,766	5,838	33%
Ore mined, Kt	1,832	1,866	-2%
Open-pit	1,512	1,599	-5%
Underground	320	267	20%
Gold grade in ore mined, g/t	4.7	4.8	-1%
Open-pit	4.7	4.7	0%
Underground	4.9	5.2	-5%

PRODUCTION	2017	2016	Change %
Ore processed, Kt	1,725	1,654	4%
Gold grade in ore processed, g/t	4.9	5.0	-3%
Recoveries to concentrate	87.5%	87.2%	0%
Concentrate produced, Kt	141	136	3%
Gold grade in concentrate produced, g/t	52.3	53.3	-2%
Gold in concentrate, Koz	237	234	2%
Concentrate sold, Kt	–	–	NA
Saleable gold in concentrate sold to off-takers, Koz	–	–	NA
Amursk POX			
Concentrate processed, Kt	154	149	3%
Gold grade in concentrate processed, g/t	58.3	52.1	12%
Recoveries	96.4%	94.5%	2%
Gold production at Amursk POX, Koz	268	244	10%
Total gold equivalent production, Koz	268	244	10%
Total cash costs, US$/GE oz	676	529	28%
All-in sustaining cash costs, US$/GE oz	846	684	24%
Adjusted EBITDA, US$m	157	167	-6%

OPERATIONAL STATISTICS

MAYSKOYE

MINING	2017	2016	Change %
Stripping, Kt	**4,415**	336	NA
Underground development, m	**19,713**	19,523	1%
Ore mined, Kt	**944**	730	29%
Open-pit	**225**	–	NA
Underground	**719**	730	-1%
Gold grade in ore mined, g/t	**6.3**	5.3	20%

PRODUCTION	2017	2016	Change %
Ore processed, Kt	**644**	761	-15%
Gold grade in ore processed, g/t	**5.4**	5.3	3%
Recoveries to concentrate	**87.7%**	87.7%	0%
Concentrate produced, Kt	**53**	71	-25%
Gold grade in concentrate produced, g/t	**56.3**	50.2	12%
Gold in concentrate, Koz	**96**	114	-16%
Concentrate sold, Kt	**63**	60	5%
Saleable gold in concentrate sold to off-takers, Koz	**102**	87	17%
Leaching			
Ore processed, Kt	**67**	–	NA
Gold grade, g/t	**9.9**	–	NA
Gold recovery	**51.6%**	–	NA
Gold in carbon, Koz	**12**	–	NA
Gold produced, Koz	**11.3**	–	NA
Amursk POX			
Concentrate processed, Kt	**6**	17	-63%
Gold grade in concentrate processed, g/t	**49.6**	55.2	-10%
Recoveries	**96.2%**	94.4%	2%
Gold production at Amursk POX, Koz	**11**	29	-62%
Total gold equivalent production, Koz	**124**	116	7%
Total cash costs, US$/GE oz	**1,040**	1,011	3%
All-in sustaining cash costs, US$/GE oz	**1,236**	1,242	-1%
Adjusted EBITDA, US$m	**20**	13	54%

AMURSK POX

	Albazino			Mayskoye			Total		
PRODUCTION	2017	2016	% change	2017	2016	% change	2017	2016	% change
Concentrate processed, Kt	**154**	149	3%	**6**	17	-63%	**160**	166	-3%
Gold grade in concentrate processed, g/t	**58.3**	52.1	12%	**49.6**	55.2	-10%	**58.0**	52.5	11%
Recoveries	**96.4%**	94.5%	2%	**96.2%**	94.4%	2%			
Total gold equivalent production, Koz	**268**	244	10%	**11**	29	-62%	**280**	273	3%

OMOLON

	Birkachan			Tsokol			Sopka			Oroch			Olcha			Total		
MINING	2017	2016	% change	2017	2016	% change	2017	2016	% change	2017	2016	% change	2017	2016	% change	2017	2016	% change
Stripping, Kt	**–**	2,548	-100%	**–**	–	NA	**6,442**	–	NA	**109**	4,552	-98%	**184**	1,088	-83%	**6,735**	8,188	-18%
Underground development, m	**4,526**	2,286	98%	**3,786**	3,934	-4%	**–**	–	NA	–	–	NA	**3,164**	125	2431%	**11,476**	6,345	81%
Ore mined, Kt	**114**	961	-88%	**153**	103	48%	**261**	–	NA	**81**	936	-91%	**83**	232	-64%	**692**	2,233	-69%
open-pit	**–**	893	-100%	**–**	–	NA	**261**	–	NA	**81**	936	-91%	**73**	232	-69%	**415**	2,061	-80%
underground	**114**	68	67%	**153**	103	48%	**–**	–	NA	–	–	NA	**10**	–	NA	**277**	172	61%
Metal in ore mined (grades), g/t																		
gold	**7.6**	2.0	275%	**10.4**	12.7	-18%	**3.7**	–	NA	**2.3**	2.9	-18%	**5.6**	6.0	-7%	**5.9**	3.3	78%
silver	**48**	8	519%	**–**	–	NA	**117**	–	NA	**164**	134	22%	**17**	17	-3%	**73**	61	19%

PRODUCTION	2017	2016	Change %
Kubaka mill			
Ore processed, Kt	**858**	840	2%
Metal in ore processed (grades), g/t			
gold	**6.7**	5.9	13%
silver	**90**	90	-1%
Recoveries			
gold	**94.2%**	92.2%	2%
silver	**83.9%**	85.5%	-2%
Production			
gold, Koz	**172**	144	20%
silver, Moz	**2.1**	2.1	-1%
Birkachan heap leach			
Ore stacked, Kt	**459**	–	NA
Gold grade, g/t	**1.3**	–	NA
Gold recovery	**90.1%**	–	NA
Gold production, Koz	**4**	–	NA
Total gold equivalent, Koz	**202**	170	19%
Total cash costs, US$/GE oz	**652**	503	30%
All-in sustaining cash costs, US$/GE oz	**858**	675	27%
Adjusted EBITDA, US$m	**120**	116	3%

VORO

MINING	2017	2016	Change %
Stripping, Kt	**10,250**	10,490	-2%
Ore mined, Kt	**1,553**	1,308	19%
oxidised	**377**	260	45%
primary	**1,175**	1,048	12%
Gold grade in ore mined, g/t			
oxidised	**1.4**	1.9	-24%
primary	**3.4**	4.0	-16%

	Voro CIP			Voro heap leach			Total		
PRODUCTION	2017	2016	change %	2017	2016	change %	2017	2016	change %
Ore processed, Kt	**1,002**	1,001	0%	**358**	319	12%	**1,360**	1,321	3%
Metal in ore processed (grades), g/t									
gold	**4.0**	4.2	-5%	**1.2**	1.6	-25%	**3.3**	3.6	-9%
Recoveries									
gold	**80.1%**	78.3%	2%	**73.0%**	73.3%	0%			
Production									
gold, Koz	**102**	110	-8%	**17**	17	-3%	**118**	127	-7%
silver, Moz	**0.1**	0.1	9%	**0.01**	0.01	47%	**0.1**	0.1	11%
Gold equivalent, Koz	**103**	111	-8%	**17**	17	-2%	**120**	129	-7%
Total cash cost, US$/GE oz							**383**	322	19%
All-in sustaining cash costs, US$/GE oz							**532**	419	27%
Adjusted EBITDA, US$m							**97**	113	-14%

OKHOTSK

	Khakanja			Ozerny			Avlayakan			Svetloye			Total		
MINING	2017	2016	% change	2017	2016	% change	2017	2016	% change	2017	2016	% change	2017	2016	% change
Stripping, Kt	**–**	–	NA	**–**	–	NA	**–**	–	NA	**421**	972	-57%	**421**	972	-57%
Underground development, m	**–**	–	NA	**–**	–	NA	**5,179**	4,637	12%	**–**	–	NA	**5,179**	4,637	12%
Ore mined, Kt	**–**	–	NA	**–**	–	NA	**137**	141	-3%	**1,246**	1,336	-7%	**1,383**	1,476	-6%
Metal in ore mined (grades), g/t															
gold	**–**	–	NA	**–**	–	NA	**15.9**	15.9	0%	**3.7**	2.6	42%	**4.9**	3.9	26%
silver	**–**	–	NA	**–**	–	NA	**147**	141	4%	**–**	–	NA	**15**	13	9%

	Okhotsk CIP			Svetloye heap leach			Total		
PRODUCTION	2017	2016	change %	2017	2016	change %	2017	2016	change %
Ore processed, Kt	**623**	627	-1%	**1,054**	428	146%	**1,676**	1,055	59%
Metal in ore processed (grades), g/t									
gold	**4.7**	4.8	-2%	**4.4**	3.6	21%	**4.5**	4.3	5%
silver	**111**	85	30%	**–**	–	NA	**41**	51	–19%
Recoveries									
gold	**97.0%**	95.7%	1%	**80.7%**	80.8%	0%			
silver	**78.6%**	78.9%	0%	**–**	–	NA			
Production									
gold, Koz	**90**	92	-1%	**106**	23	359%	**196**	115	71%
silver, Moz	**1.7**	1.3	25%	**–**	–	NA	**1.7**	1.3	25%
Gold equivalent, Koz	**111**	108	3%	**106**	23	359%	**217**	131	65%
Total cash cost, US$/GE oz	**702**	648	8%	**313**	419	-25%			
All-in sustaining cash costs, US$/GE oz	**869**	750	16%	**426**	752	-43%			
Adjusted EBITDA, US$m	**58**	71	-18%	**101**	18	461%			

OPERATIONAL STATISTICS

VARVARA

	Varvara			Komar			Total		
MINING	2017	2016	change %	2017	2016	change %	2017	2016	change %
Stripping, Kt	**9,588**	18,646	-49%	**14,201**	2,939	383%	**23,789**	21,584	10%
Ore mined, Kt	**1,261**	2,820	-55%	**1,982**	383	417%	**3,243**	3,203	1%
float ore	**364**	156	134%	**–**	–	NA	**364**	156	134%
leach ore	**897**	2,664	-66%	**1,982**	383	417%	**2,878**	3,047	-6%
Metal in ore mined (grades)									
gold, g/t — float ore	**1.0**	1.1	-15%	**0.0**	–	NA	**1.0**	1.1	-15%
gold, g/t — leach ore	**1.0**	0.8	16%	**1.5**	1.5	3%	**1.4**	0.9	48%
copper, % (float ore)	**0.5%**	0.4%	26%	**0.0%**	–	NA	**0.5%**	0.4%	26%

	Varvara — flotation			Varvara — leaching			Total		
PRODUCTION	2017	2016	change %	2017	2016	change %	2017	2016	change %
Ore processed, Kt	**389**	372	5%	**2,890**	2,748	5%	**3,269**	3,119	5%
Metal in ore processed (grades)									
gold, g/t	**1.9**	1.8	9%	**1.4**	1.0	48%	**1.5**	1.1	39%
copper, %	**0.6%**	0.3%	91%	**–**	–	NA			
Recoveries									
gold	**64.3%**	65.8%	-2%	**83.4%**	79.7%	5%			
copper	**83.1%**	72.5%	15%	**–**	–	NA			
Production									
gold, Koz	**9**	10	-10%	**114**	70	62%	**123**	80	53%
copper, t	**1,411**	839	68%	**–**	–	NA	**1,411**	839	68%
Gold equivalent, Koz	**16**	14	12%	**114**	70	62%	**130**	85	54%
Total cash cost, US$/GE oz							**701**	780	-10%
All-in sustaining cash costs, US$/GE oz							**952**	975	-2%
Adjusted EBITDA, US$m							**68**	36	89%

KAPAN

MINING	2017	2016	Change %
Stripping, Kt	**–**	–	NA
Underground development, m	**16,937**	9,493	78%
Ore mined, Kt	**527**	287	84%
Metal in ore mined (grades)			
gold, g/t	**2.2**	2.0	10%
silver, g/t	**39**	41	-5%
copper, %	**0.30%**	0.28%	10%
zinc, %	**1.31%**	1.42%	-8%

PRODUCTION	2017	2016	Change %
Ore processed, Kt	**530**	293	81%
Metal in ore processed (grades)			
gold, g/t	**2.2**	2.0	10%
silver, g/t	**39**	40	-5%
copper, %	**0.30%**	0.26%	14%
zinc, %	**1.30%**	1.38%	-6%
Recoveries			
gold	**83.6%**	82.4%	1%
silver	**83.0%**	81.5%	2%
copper	**92.3%**	90.6%	2%
zinc	**89.1%**	89.4%	-0%
Production			
gold, Koz	**28**	14	105%
silver, Moz	**0.5**	0.3	82%
copper, t	**1,304**	615	112%
zinc, t	**4,794**	2,888	66%
Gold equivalent, Koz	**50**	26	94%
Total cash costs, US$/GE oz	**871**	900	-3%
All-in sustaining cash costs, US$/GE oz	**1,292**	1,264	2%
Adjusted EBITDA, US$m	**20**	6	233%

RESERVES AND RESOURCES

MINERAL RESOURCES AND ORE RESERVES AS AT 1 JANUARY 2018[1]

	Tonnage Mt	Grade GE, g/t	Content GE, Moz
MINERAL RESOURCES			
Measured	20.2	2.7	1.8
Indicated	30.7	3.8	3.7
Measured + Indicated	**50.9**	**3.3**	**5.5**
Inferred	69.1	5.7	12.8
Measured + Indicated + Inferred	**120.0**	**4.7**	**18.2**
ORE RESERVES			
Proved	61.0	2.6	5.0
Probable	106.0	4.7	15.9
Proved + Probable	**167.0**	**3.9**	**20.9**

[1] Mineral resources and ore reserves in accordance with the JORC Code (2012). Mineral resources are additional to Ore reserves. Mineral resources and Ore reserves for Lead are not presented due to their immateriality and are not included in the calculation of the gold equivalent. PGM Mineral resources are presented separately and are not included in the calculation of the gold equivalent. Any discrepancies in calculations are due to rounding.

ORE RESERVES AS AT 1 JANUARY 2018[1]

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
PROVED											
Standalone mines	**6,690**					**4.8**	**1,035**	**–**	**–**	**–**	**1,035**
Albazino	4,570	3.9	–	–	–	3.9	571	–	–	–	571
Mayskoye	2,120	6.8	–	–	–	6.8	465	–	–	–	465
Dukat hub	**7,040**					**4.0**	**153**	**61,391**	**–**	**–**	**907**
Dukat	4,770	0.5	251	–	–	3.4	72	38,598	–	–	527
Lunnoye	1,760	1.3	286	–	–	5.1	72	16,194	–	–	288
Goltsovoye	160	–	335	–	–	4.5	–	1,714	–	–	23
Arylakh	350	0.7	435	–	–	6.2	8	4,884	–	–	70
Varvara hub	**20,800**					**1.3**	**843**	**–**	**8.4**	**–**	**896**
Varvara[3]	12,300	1.0	–	0.5	–	1.1	379	–	8.4	–	431
Komar	3,540	1.4	–	–	–	1.4	165	–	–	–	165
Maminskoye[4]	4,810	1.9	–	–	–	1.9	295	–	–	–	295
Dolinnoye[5]	150	1.1	–	–	–	1.1	5	–	–	–	5
Omolon hub	**9,250**					**2.7**	**696**	**11,240**	**–**	**–**	**804**
Birkachan	3,910	2.0	6	–	–	2.1	255	777	–	–	263
Sopka Kvartsevaya	3,060	1.6	68	–	–	2.3	159	6,648	–	–	220
Oroch[7]	470	3.7	157	–	–	5.5	56	2,367	–	–	83
Olcha	50	8.9	16	–	–	9.1	14	26	–	–	15
Dalneye[8]	1,090	1.7	28	–	–	1.9	59	991	–	–	67
Tsokol Kubaka	290	6.2	6	–	–	6.3	57	56	–	–	57
Burgali[9]	380	7.9	31	–	–	8.2	95	375	–	–	98
Voro hub	**10,210**					**1.8**	**575**	**995**	**–**	**–**	**585**
Voro	10,210	1.8	3	–	–	1.8	575	995	–	–	585
Okhotsk hub	**3,120**					3.1	291	2,401	–	–	313
Svetloye	2,190	2.8	3	–	–	2.8	195	217	–	–	195
Avlayakan	150	13.7	117	–	–	15.2	68	576	–	–	75
Khakanja[11]	780	1.1	64	–	–	1.7	28	1,608	–	–	43
Armenia	**750**					**4.4**	**75**	**714**	**2.7**	**5.3**	**107**
Kapan[12]	220	2.9	42	0.5	2.5	5.8	20	289	1.1	5.3	40
Lichkvaz[13]	530	3.2	25	0.3	–	4.0	55	425	1.6	–	67
Development and exploration projects	**3,150**					**3.6**	**361**	**1,099**	**–**		**368**
Nezhda[15]	1,350		25	–	–	4.2	174	1,099	–	–	182
Veduga[16]	220	2.3	–	–	–	2.3	17	–	–	–	17
Kutyn[17]	1,580	3.3	–	–	–	3.3	169	–	–	–	169
Total Proved	**61,010**					**2.6**	**4,028**	**77,841**	**11.1**	**5.3**	**5,015**

STRATEGIC REPORT
GOVERNANCE
FINANCIAL STATEMENTS
APPENDICES

ORE RESERVES AS AT 1 JANUARY 2018[1] CONTINUED

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
PROBABLE											
Standalone mines	**15,090**					**5.4**	**2,640**	**–**	**–**	**–**	**2,640**
Albazino	10,560	5.0	–	–	–	5.0	1,701	–	–	–	1,701
Mayskoye	4,530	6.4	–	–	–	6.4	939	–	–	–	939
Dukat hub	**6,540**					**4.7**	**132**	**70,197**	**–**	**–**	**982**
Dukat	5,050	0.5	337	–	–	4.5	83	54,694	–	–	727
Lunnoye	750	1.7	268	–	–	5.3	42	6,506	–	–	129
Goltsovoye	170	–	307	–	–	4.1	–	1,662	–	–	22
Arylakh	220	0.9	348	–	–	5.3	6	2,476	–	–	38
Perevalnoye[2]	350	–	428	–	–	5.9	–	4,860	–	–	67
Varvara hub	**37,870**					**1.9**	**2,145**	**359**	**34.0**	**–**	**2,357**
Varvara[3]	5,370	1.1	–	0.6	–	1.8	196	–	19.6	–	317
Komar	19,300	1.8	–	–	–	1.8	1,135	–	–	–	1,135
Maminskoye[4]	9,890	1.9	–	–	–	1.9	618	–	–	–	618
Dolinnoye[5]	2,420	2.5	–	–	–	2.5	193	–	–	–	193
Tarutin[6]	890	0.1	13	1.6	–	3.3	3	359	14.4	–	93
Omolon hub	**1,910**					**8.3**	**491**	**2,000**	**–**	**–**	**512**
Birkachan	1,210	8.8	24	–	–	9.1	339	937	–	–	349
Sopka Kvartsevaya	120	6.2	193	–	–	8.3	24	745	–	–	32
Olcha	230	8.8	15	–	–	9.0	65	113	–	–	67
Tsokol Kubaka	190	6.2	10	–	–	6.3	39	61	–	–	39
Burgali[9]	160	4.7	28	–	–	5.0	24	144	–	–	25
Voro hub	**450**					**13.0**	**80**	**1,074**	**18.9**	**18.1**	**188**
Voro	130	2.3	5	–	–	2.4	10	19	–	–	10
North Kaluga[10]	320	6.7	101	5.8	5.6	17.1	70	1,056	18.9	18.1	179
Okhotsk hub	**3,500**					**3.5**	**385**	**594**	**–**	**–**	**388**
Svetloye	3,440	3.3	4	–	–	3.3	360	430	–	–	361
Avlayakan	60	12.9	83	–	–	13.9	26	164	–	–	27
Armenia	**4,390**					**4.1**	**311**	**5,220**	**17.7**	**62.4**	**585**
Kapan[12]	3,850	2.1	40	0.4	1.6	4.2	254	4,905	16.3	62.4	518
Lichkvaz[13]	540	3.2	18	0.2	–	3.8	57	315	1.4	–	67
Development and exploration projects	**36,200**					**7.1**	**8,210**	**666**			**8,214**
Kyzyl project (Bakyrchik)[14]	29,150	7.7	–	–	–	7.7	7,254	–	–	–	7,254
Nezhda[15]	1,380	3.7	15	–	–	3.8	164	666	–	–	168
Veduga[16]	3,600	5.0	–	–	–	5.0	575	–	–	–	575
Kutyn[17]	2,070	3.3	–	–	–	3.3	217	–	–	–	217
Total Probable	**105,950**					**4.7**	**14,393**	**80,110**	**70.5**	**80.5**	**15,867**

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
PROVED + PROBABLE											
Standalone mines	**21,780**					**5.2**	**3,675**	**–**	**–**	**–**	**3,675**
Albazino	15,130	4.7	–	–	–	4.7	2,272	–	–	–	2,272
Mayskoye	6,650	6.6	–	–	–	6.6	1,404	–	–	–	1,404
Dukat hub	**13,580**					**4.3**	**285**	**131,588**	**–**	**–**	**1,890**
Dukat	9,820	0.5	295	–	–	4.0	156	93,293	–	–	1,253
Lunnoye	2,510	1.4	281	–	–	5.2	114	22,700	–	–	417
Goltsovoye	330	–	321	–	–	4.3	–	3,376	–	–	45
Arylakh	570	0.8	401	–	–	5.9	15	7,360	–	–	108
Perevalnoye[2]	350	–	428	–	–	5.9	–	4,860	–	–	67
Varvara hub	**58,670**					**1.7**	**2,989**	**359**	**42.4**	**–**	**3,253**
Varvara[3]	17,670	1.0	–	0.6	–	1.3	575	–	28.0	–	748
Komar	22,840	1.8	–	–	–	1.8	1,300	–	–	–	1,300
Maminskoye[4]	14,700	1.9	–	–	–	1.9	913	–	–	–	913
Dolinnoye[5]	2,570	2.4	–	–	–	2.4	198	–	–	–	198
Tarutin[6]	890	0.1	13	1.6	–	3.3	3	359	14.4	–	93
Omolon hub	**11,160**					**3.7**	**1,186**	**13,240**	**–**	**–**	**1,316**
Birkachan	5,120	3.6	10	–	–	3.7	594	1,714	–	–	611
Sopka Kvartsevaya	3,180	1.8	72	–	–	2.5	183	7,393	–	–	253
Oroch[7]	470	3.7	157	–	–	5.5	56	2,367	–	–	83
Olcha	280	8.8	15	–	–	9.0	80	139	–	–	81
Dalneye[8]	1,090	1.7	28	–	–	1.9	59	991	–	–	67
Tsokol Kubaka	480	6.2	8	–	–	6.3	95	117	–	–	97
Burgali[9]	540	7.0	30	–	–	7.2	119	519	–	–	123

ORE RESERVES AS AT 1 JANUARY 2018[1] CONTINUED

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
PROVED + PROBABLE (continued)											
Voro hub	**10,660**					**2.3**	**655**	**2,070**	**18.9**	**18.1**	**774**
Voro	10,340	1.8	3	–	–	1.8	585	1,014	–	–	595
North Kaluga[10]	320	6.7	101	5.8	5.6	17.1	70	1,056	18.9	18.1	179
Okhotsk hub	**6,620**					**3.3**	**676**	**2,995**	**–**	**–**	**702**
Svetloye	5,630	3.1	4	–	–	3.1	555	647	–	–	556
Avlayakan	210	13.5	107	–	–	14.8	93	740	–	–	102
Khakanja[11]	780	1.1	64	–	–	1.7	28	1,608	–	–	43
Armenia	**5,140**					**4.2**	**385**	**5,934**	**20.3**	**67.7**	**692**
Kapan[12]	4,070	2.1	40	0.4	1.7	4.3	274	5,194	17.4	67.7	558
Lichkvaz[13]	1,070	3.2	21	0.3	–	3.9	111	740	2.9	–	134
Development and exploration projects	**39,350**					**6.8**	**8,571**	**1,764**	**–**	**–**	**8,582**
Kyzyl project (Bakyrchik)[14]	29,150	7.7	–	–	–	7.7	7,254	–	–	–	7,254
Nezhda[15]	2,730	3.8	20	–	–	4.0	338	1,764	–	–	350
Veduga[16]	3,820	4.8	–	–	–	4.8	592	–	–	–	592
Kutyn[17]	3,650	3.3	–	–	–	3.3	386	–	–	–	386
Total Probable	**166,960**					**3.9**	**18,422**	**157,951**	**81.6**	**85.8**	**20,883**

1 Ore reserves in accordance with the JORC Code (2012). Discrepancies in calculations are due to rounding.
2 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Ag = US$15/oz. and Pb = US$1,700/t. Revised estimate was not performed due to lack of material changes.
3 Cu grade in Ore reserves only represents average grade in flotation feed. Ore reserves for flotation: 1.8 Mt Proved and 3.2 Mt Probable.
4 Initial estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
5 Initial estimate prepared by CSA as at 28.07.2016. Price: Au = US$1,100/oz. Revised estimate was prepared by Polymetal as at 01.01.2018 (accounts only for depletion and change in ownership). Ore reserves are presented in accordance with the Company's ownership of 50%.
6 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz and Cu = US$5,000/t. Revised estimate was prepared by Polymetal as at 01.01.2018 (accounts for change in ownership).
7 Stockpiled Ore reserves.
8 Stockpiled Ore reserves.
9 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz and Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
10 Initial estimate prepared by Polymetal as at 01.07.2014. Price: Au = US$1,300/oz, Ag = US$20/oz, Cu = US$7,000/t and Zn = US$1,700/t. Revised estimate was not performed due to lack of material changes.
11 Stockpiled Ore reserves.
12 Initial estimate prepared by Polymetal as at 01.01.2018.
13 Initial estimate prepared by Polymetal as at 01.01.2018.
14 Initial estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
15 Initial estimate prepared by Polymetal as at 01.07.2017. Ore reserves are presented in accordance with the Company's ownership equal to 17.66%. Revised estimate was not performed due to lack of material changes.
16 Ore reserves are presented in accordance with the Company's ownership equal to 42.65%.
17 Initial estimate prepared by Snowden as at 01.01.2015. Price: Au = US$1,300/oz. Only Ore reserves estimate for Heap Leach. Revised estimate was not performed due to lack of material changes.

MINERAL RESOURCES AS AT 1 JANUARY 2018[1]

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
MEASURED											
Standalone mines	**3,740**					**5.1**	**616**	**–**	**–**	**–**	**616**
Albazino	2,540	1.7	–	–	–	1.7	143	–	–	–	143
Mayskoye	1,200	12.2	–	–	–	12.2	473	–	–	–	473
Dukat hub	**1,470**					**6.7**	**58**	**20,661**	**–**	**–**	**316**
Dukat	740	0.9	441	–	–	6.0	21	10,503	–	–	144
Lunnoye	610	1.8	327	–	–	6.2	36	6,413	–	–	122
Goltsovoye	100	–	976	–	–	13.0	–	3,285	–	–	44
Arylakh	20	1.1	626	–	–	9.0	1	458	–	–	7
Varvara hub	**11,170**					**1.2**	**268**	**–**	**23.6**	**–**	**414**
Varvara[4]	10,150	0.7	–	0.4	–	1.1	222	–	23.6	–	368
Komar	40	1.5	–	–	–	1.5	2	–	–	–	2
Maminskoye[5]	980	1.4	–	–	–	1.4	44	–	–	–	44
Omolon hub	**950**					**3.3**	**86**	**1,421**	**–**	**–**	**101**
Birkachan	40	12.7	39	–	–	13.1	14	45	–	–	15
Sopka Kvartsevaya	210	1.5	73	–	–	2.2	10	492	–	–	14
Oroch[8]	480	1.2	51	–	–	1.8	19	795	–	–	28
Olcha	150	4.1	13	–	–	4.2	19	65	–	–	20
Tsokol Kubaka	70	10.4	11	–	–	10.5	23	24	–	–	23
Voro hub	**690**					**2.6**	**56**	**106**	**–**	**–**	**57**
Voro	690	2.5	5	–	–	2.6	56	106	–	–	57
Okhotsk hub	**670**					**3.5**	**68**	**696**	**–**	**–**	**75**
Svetloye	230	1.4	2	–	–	1.4	11	14	–	–	11
Avlayakan	130	10.0	84	–	–	11.0	42	355	–	–	46
Ozerny[15]	270	1.7	26	–	–	1.9	14	226	–	–	17
Khakanja[16]	40	0.7	73	–	–	1.4	1	101	–	–	2
Armenia	**410**					**4.6**	**48**	**397**	**1.3**	**0.6**	**60**
Kapan	20	5.2	74	0.9	4.1	10.0	3	38	0.2	0.6	5
Lichkvaz	390	3.5	28	0.3	–	4.3	45	359	1.2	–	55
Development and exploration projects	**1,130**					**3.8**	**136**	**87**	**–**	**–**	**136**
Nezhda[20]	210	5.4	13	–	–	5.4	37	87	–	–	37
Veduga[21]	180	0.4	–	–	–	0.4	3	–	–	–	3
Kutyn[22]	740	4.1	–	–	–	4.1	97	–	–	–	97
Total Measured	**20,230**					**2.7**	**1,335**	**23,367**	**24.9**	**0.6**	**1,776**

MINERAL RESOURCES AS AT 1 JANUARY 2018[1] CONTINUED

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
INDICATED											
Standalone mines	**2,240**					**7.0**	**504**	**–**	**–**	**–**	**504**
Albazino	1,520	5.2	–	–	–	5.2	253	–	–	–	253
Mayskoye	720	10.9	–	–	–	10.9	251	–	–	–	251
Dukat hub	**1,070**					**12.4**	**77**	**27,457**	**–**	**–**	**425**
Dukat	390	0.6	383	–	–	5.1	8	4,814	–	–	64
Lunnoye	70	2.4	234	–	–	5.5	6	555	–	–	13
Goltsovoye	130	–	750	–	–	10.0	–	3,251	–	–	43
Arylakh	10	1.5	502	–	–	7.9	1	226	–	–	4
Primorskoye[3]	470	4.2	1,238	–	–	20.0	62	18,610	–	–	301
Varvara hub	**16,150**					**1.7**	**726**	**120**	**24.2**	**–**	**877**
Varvara[4]	10,050	1.2	–	0.5	–	1.5	398	–	16.7	–	501
Komar	3,500	2.0	–	–	–	2.0	220	–	–	–	220
Maminskoye[5]	1,150	1.5	–	–	–	1.5	55	–	–	–	55
Dolinnoye[6]	850	1.9	–	–	–	1.9	52	–	–	–	52
Tarutinskoye[7]	600	0.1	6	1.3	–	2.5	2	120	7.6	–	49
Omolon hub	**570**					**10.3**	**147**	**3,782**	**–**	**–**	**189**
Birkachan	90	10.4	21	–	–	10.6	28	56	–	–	29
Sopka Kvartsevaya	70	4.7	187	–	–	6.7	11	430	–	–	15
Olcha	70	8.1	20	–	–	8.3	18	45	–	–	19
Tsokol-Kubaka	30	5.9	9	–	–	6.0	6	9	–	–	6
Irbychan[10]	240	8.9	189	–	–	11.3	68	1,439	–	–	86
Nevenrekan[12]	70	7.1	784	–	–	15.1	16	1,803	–	–	35
Voro hub	**3,320**					**4.4**	**335**	**2,067**	**16.1**	**29.1**	**471**
Voro	340	2.5	5	–	–	2.6	28	51	–	–	28
Tamunier	2,190	3.4	10	–	–	3.5	242	690	–	–	245
Saum[13]	790	2.5	52	2.0	3.7	7.8	65	1,325	16.1	29.1	197
Okhotsk hub	**720**					**5.3**	**119**	**261**	**–**	**–**	**122**
Svetloye	530	2.0	3	–	–	2.0	34	44	–	–	34
Avlayakan	20	16.9	47	–	–	17.4	10	27	–	–	10
Maimakan-Kundumi	170	13.8	35	–	–	14.2	76	190	–	–	78
Armenia	**650**					**5.2**	**69**	**811**	**3.1**	**7.6**	**109**
Kapan	320	2.9	57	0.7	2.4	6.1	30	588	2.1	7.6	63
Lichkvaz	330	3.7	21	0.3	–	4.4	39	222	1.0	–	47
Development and exploration projects	**5,930**					**5.3**	**1,000**	**597**	–	–	**1,004**
Kyzyl project (Bakyrchik)[19]	2,740	6.2	–	–	–	6.2	545	–	–	–	545
Nezhda[20]	1,120	4.9	17	–	–	5.0	176	597	–	–	179
Kutyn[22]	2,070	4.2	–	–	–	4.2	279	–	–	–	279
Total Indicated	**30,650**					**3.8**	**2,977**	**35,094**	**43.4**	**36.7**	**3,701**

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
MEASURED + INDICATED											
Standalone mines	**5,980**					**5.8**	**1,120**	**–**	**–**	**–**	**1,120**
Albazino	4,060	3.0	–	–	–	3.0	396	–	–	–	396
Mayskoye	1,920	11.7	–	–	–	11.7	724	–	–	–	724
Dukat hub	**2,540**					**9.1**	**134**	**48,118**	**–**	**–**	**742**
Dukat	1,130	0.8	421	–	–	5.7	28	15,317	–	–	209
Lunnoye	680	1.9	317	–	–	6.1	42	6,969	–	–	135
Goltsovoye	230	–	849	–	–	11.3	–	6,537	–	–	87
Arylakh	30	1.2	579	–	–	8.6	1	685	–	–	10
Primorskoye[3]	470	4.2	1,238	–	–	20.0	62	18,610	–	–	301
Varvara hub	**27,320**					**1.5**	**994**	**120**	**47.8**	**–**	**1,291**
Varvara[4]	20,200	1.0	–	0.4	–	1.3	620	–	40.2	–	868
Komar	3,540	2.0	–	–	–	2.0	222	–	–	–	222
Maminskoye[5]	2,130	1.4	–	–	–	1.4	99	–	–	–	99
Dolinnoye[6]	850	1.9	–	–	–	1.9	52	–	–	–	52
Tarutinskoye[7]	600	0.1	6.2	1.3	–	2.5	2	120	7.6	–	49
Omolon hub	**1,520**					**5.9**	**233**	**5,203**	**–**	**–**	**290**
Birkachan	130	11.1	26	–	–	11.4	43	101	–	–	44
Sopka Kvartsevaya	280	2.3	103	–	–	3.3	21	922	–	–	30
Oroch[8]	480	1.2	51	–	–	1.8	19	795	–	–	28
Olcha	220	5.3	16	–	–	5.5	38	110	–	–	39
Tsokol-Kubaka	100	9.1	10	–	–	9.2	29	33	–	–	29
Irbychan[10]	240	8.9	189	–	–	11.3	68	1,439	–	–	86
Nevenrekan[12]	70	7.1	784	–	–	15.1	16	1,803	–	–	35
Voro hub	**4,010**					**4.1**	**391**	**2,173**	**16.1**	**29.1**	**528**
Voro	1,030	2.5	5	–	–	2.6	84	157	–	–	86
Tamunier	2,190	3.4	10	–	–	3.5	242	690	–	–	245
Saum[13]	790	2.5	52	2.0	3.7	7.8	65	1,325	16.1	29.1	197
Okhotsk hub	**1,390**					**4.4**	**187**	**957**	**–**	**–**	**197**
Svetloye	760	1.8	2	–	–	1.8	44	58	–	–	44
Avlayakan	150	10.8	80	–	–	11.8	52	381	–	–	56
Ozerny[15]	270	1.7	26	–	–	1.9	14	226	–	–	17
Maimakan-Kundumi	170	13.8	35	–	–	14.2	76	190	–	–	78
Khakanja[16]	40	0.7	73	–	–	1.4	1	101	–	–	2
Armenia	**1,060**					**5.0**	**117**	**1,208**	**4.4**	**8.2**	**169**
Kapan	340	3.0	58	0.7	2.5	6.3	33	626	2.2	8.2	68
Lichkvaz	720	3.6	25	0.3	–	4.4	84	581	2.2	–	102
Development and exploration projects	**7,060**					**5.0**	**1,135**	**684**	–	–	**1,140**
Kyzyl project (Bakyrchik)[19]	2,740	6.2	–	–	–	6.2	545	–	–	–	545
Nezhda[20]	1,330	5.0	16	–	–	5.1	212	684	–	–	217
Veduga[21]	180	0.4	–	–	–	0.4	3	–	–	–	3
Kutyn[22]	2,810	4.2	–	–	–	4.2	376	–	–	–	376
Total Measured + Indicated	**50,880**					**3.3**	**4,312**	**58,461**	**68.3**	**37.4**	**5,477**

MINERAL RESOURCES AS AT 1 JANUARY 2018[1] CONTINUED

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
INFERRED											
Standalone mines	**13,690**					**9.0**	**3,964**	**–**	**–**	**–**	**3,964**
Albazino	4,240	6.1	–	–		6.1	839	–	–		839
Mayskoye	9,450	10.3	–	–		10.3	3,125	–	–		3,125
Dukat hub	**1,240**					**9.0**	**47**	**25,161**	**–**	**–**	**357**
Dukat	690	1.3	705	–	–	9.6	29	15,723	–	–	214
Lunnoye	290	1.6	430	–	–	7.3	15	3,971	–	–	68
Goltsovoye	110	–	772	–	–	10.3	–	2,722	–	–	36
Arylakh	100	0.6	558	–	–	7.7	2	1,737	–	–	24
Perevalnoye[2]	20	–	564	–	–	7.7	–	379	–	–	5
Primorskoye[3]	30	1.8	787	–	–	11.8	1	629	–	–	9
Varvara hub	**15,920**					**2.2**	**967**	**167**	**22.0**	**–**	**1,104**
Varvara[4]	8,460	1.4	–	0.7	–	1.7	374	–	14.2	–	462
Komar	2,020	2.4	–	–	–	2.4	159	–	–	–	159
Dolinnoye[6]	4,990	2.7	–	–	–	2.7	432	–	–	–	432
Tarutin[7]	450	0.1	11	1.7	–	3.5	2	167	7.9	–	52
Omolon hub	**690**					**11.8**	**221**	**3,928**	**–**	**–**	**262**
Sopka Kvartsevaya	40	2.3	90	–	–	3.3	3	123	–	–	4
Olcha	140	11.0	39	–	–	11.4	48	169	–	–	50
Tsokol Kubaka	80	8.0	16	–	–	8.2	20	41	–	–	21
Burgali[9]	50	11.9	15	–	–	12.0	21	26	–	–	21
Irbychan[10]	20	19.3	265	–	–	22.6	10	141	–	–	12
Yolochka[11]	240	11.1	10	–	–	11.2	85	73	–	–	86
Nevenrekan[12]	120	8.6	861	–	–	17.3	33	3,355	–	–	68
Voro hub	**2,610**					**6.1**	**501**	**123**	**1.0**	**1.4**	**509**
Tamunier	480	3.2	4	–	–	3.3	50	69	–	–	50
Saum[13]	50	1.4	33	1.8	2.6	5.7	2	55	1.0	1.4	10
Pescherny[14]	2,080	6.7	–	–	–	6.7	449	–	–	–	449
Okhotsk hub	**3,102**					**4.8**	**466**	**1,392**	**–**	**–**	**482**
Svetloye	10	6.8	4	–	–	6.8	3	2	–	–	3
Avlayakan	10	28.6	84	–	–	29.6	8	24	–	–	9
Levoberezhny[17]	2,800	4.0	13	–	–	4.2	365	1,208	–	–	378
Kirankan[18]	142	6.5	8	–	–	6.7	30	39	–	–	30
Maimakan-Kundumi	140	13.7	27	–	–	14.0	60	119	–	–	62
Armenia	**8,900**					**6.0**	**866**	**17,063**	**56.6**	**183.0**	**1,719**
Kapan	8,020	2.9	62	0.7	2.3	6.1	739	16,012	53.4	183.0	1,564
Lichkvaz	880	4.5	37	0.4	–	5.5	128	1,052	3.2	–	155
Development and exploration projects	**22,980**					**5.9**	**4,337**	**2,845**	–	–	**4,357**
Kyzyl project (Bakyrchik)[19]	11,420	7.0	–	–	–	7.0	2,562	–	–	–	2,562
Nezhda[20]	8,580	4.9	10	–	–	4.9	1,340	2,845	–	–	1,360
Veduga[21]	870	5.8	–	–	–	5.8	162	–	–	–	162
Kutyn[22]	2,110	4.0	–	–	–	4.0	273	–	–	–	273
Total Inferred	**69,132**					**5.7**	**11,371**	**50,680**	**79.6**	**184.4**	**12,754**

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
MEASURED + INDICATED + INFERRED											
Standalone mines[3]	**19,670**					**8.0**	**5,084**	**–**	**–**	**–**	**5,084**
Albazino	8,300	4.6	–	–		4.6	1,236	–	–	–	1,236
Mayskoye	11,370	10.5	–	–		10.5	3,849	–	–	–	3,849
Dukat hub	**3,780**					**9.0**	**182**	**73,278**	**–**	**–**	**1,099**
Dukat	1,820	1.0	529	–	–	7.2	58	31,041	–	–	423
Lunnoye	970	1.8	350	–	–	6.5	57	10,940	–	–	203
Goltsovoye	340	–	825	–	–	11.0	–	9,259	–	–	123
Arylakh	130	0.8	563	–	–	7.9	3	2,421	–	–	34
Perevalnoye[2]	20	–	564	–	–	7.7	–	379	–	–	5
Primorskoye[3]	500	4.0	1,216	–	–	19.6	64	19,239	–	–	311
Varvara hub	**43,240**					**1.7**	**1,961**	**287**	**69.8**	**–**	**2,395**
Varvara[4]	28,660	1.1	–	0.5	–	1.4	994	–	54.4	–	1,330
Komar	5,560	2.1	–	–	–	2.1	381	–	–	–	381
Maminskoye[5]	2,130	1.4	–	–	–	1.4	99	–	–	–	99
Dolinnoye[6]	5,840	2.6	–	–	–	2.6	484	–	–	–	484
Tarutinskoye[7]	1,050	0.1	8	1.5	–	2.9	4	287	15.4	–	101
Omolon hub	**2,210**					**7.8**	**454**	**9,131**	**–**	**–**	**552**
Birkachan	130	11.1	26	–	–	11.4	43	101	–	–	44
Sopka Kvartsevaya	320	2.3	101	–	–	3.3	24	1,045	–	–	34
Oroch[8]	480	1.2	51	–	–	1.8	19	795	–	–	28
Olcha	360	7.5	24	–	–	7.8	86	279	–	–	89
Tsokol Kubaka	180	8.6	13	–	–	8.7	49	74	–	–	50
Burgali[9]	50	11.9	15	–	–	12.0	21	26	–	–	21
Irbychan[10]	260	9.6	194	–	–	12.0	78	1,580	–	–	98
Yolochka[11]	240	11.1	10	–	–	11.2	85	73	–	–	86
Nevenrekan[12]	190	8.0	832	–	–	16.5	50	5,157	–	–	102

MINERAL RESOURCES AS AT 1 JANUARY 2018[1] CONTINUED

	Tonnage	Grade					Content				
	Kt	Au, g/t	Ag, g/t	Cu, %	Zn, %	GE, g/t	Au, Koz	Ag, Koz	Cu, Kt	Zn, Kt	GE, Koz
MEASURED + INDICATED + INFERRED (continued)											
Voro hub	**6,620**					**4.9**	**892**	**2,296**	**17.1**	**30.5**	**1,037**
Voro	1,030	2.5	5	–	–	2.6	84	157	–	–	86
Tamunier	2,670	3.4	9	–	–	3.4	292	759	–	–	296
Saum[13]	840	2.5	51	2.0	3.6	7.6	67	1,380	17.1	30.5	207
Pescherny[14]	2,080	6.7	–	–	–	6.7	449	–	–	–	449
Okhotsk hub	**4,492**					**4.7**	**653**	**2,349**	**–**	**–**	**679**
Svetloye	770	1.9	2	–	–	1.9	47	60	–	–	47
Avlayakan	160	11.9	80	–	–	12.8	60	406	–	–	65
Ozerny[15]	270	1.7	26	–	–	1.9	14	226	–	–	17
Khakanja[16]	40	0.7	73	–	–	1.4	1	101	–	–	2
Levoberezhny[17]	2,800	4.0	13	–	–	4.2	365	1,208	–	–	378
Kirankan[18]	142	6.5	8	–	–	6.7	30	39	–	–	30
Maimakan-Kundumi	310	13.8	31	–	–	14.1	136	310	–	–	140
Armenia	**9,960**					**5.9**	**983**	**18,271**	**61.0**	**191.3**	**1,889**
Kapan	8,360	2.9	62	0.7	2.3	6.1	771	16,638	55.6	191.3	1,632
Lichkvaz	1,600	4.1	32	0.3	–	5.0	212	1,633	5.4	–	257
Development and exploration projects	**30,040**					**5.7**	**5,473**	**3,529**	**–**	**–**	**5,497**
Kyzyl project (Bakyrchik)[19]	14,160	6.8	–	–	–	6.8	3,107	–	–	–	3,107
Nezhda[20]	9,910	4.9	11	–	–	5.0	1,552	3,529	–	–	1,576
Veduga[21]	1,050	4.9	–	–	–	4.9	165	–	–	–	165
Kutyn[22]	4,920	4.1	–	–	–	4.1	649	–	–	–	649
Total Measured + Indicated + Inferred	**120,012**					**4.7**	**15,682**	**109,141**	**147.9**	**221.8**	**18,231**

1 Mineral resources are reported in accordance with the JORC Code (2012) and are additional to Ore reserves. Discrepancies in calculations are due to rounding.
2 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Ag = US$15/oz, Pb = US$1,700/t. A revised estimate was not performed due to a lack of material changes.
3 Estimate prepared by CSA Global Pty Ltd as at 01.01.2017. Price: Au = US$1,250/oz, Ag = US$16 /oz. Revised estimate was not performed due to lack of material changes.
4 Cu estimate is listed for fresh ore and powder ore that has high Cu grade (total Mineral resources for fresh ore and powder ore with high Cu grade of 4.7 and 6.8 Mt of ore respectively).
5 Initial estimate prepared by Polymetal as at 01.01.2014. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.
6 Initial estimate prepared by CSA as at 28.07.2016. Price: Au= US$1,100/oz. Revised estimate prepared by Polymetal as at 01.01.2018 (accounts only for depletion and change in ownership). Mineral resources are presented in accordance with the Company's ownership equal to 50%.
7 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au= US$1,100/oz, Ag = US$15/oz, Cu = US$5,000/t. Revised estimate was prepared by Polymetal as at 01.01.2018 (accounts only for change in ownership).
8 Stockpiled Ore reserves.
9 Estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
10 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
11 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
12 Initial estimate prepared by Polymetal as at 01.01.2016. Price: Au = US$1,100/oz, Ag = US$15/oz. Revised estimate was not performed due to lack of material changes.
13 Initial estimate prepared by Polymetal as at 01.01.2017. Price: Au = US$1,200/oz, Ag = US$16/oz, Cu = US$4,500/t and Zn = US$1,900/t. Ore reserves are presented in accordance with the Company's ownership equal to 80%. Revised estimate was not performed due to lack of material changes.
14 Initial estimate prepared by Polymetal as at 01.01.2018.
15 Stockpiled Ore reserves.
16 Stockpiled Ore reserves.
17 Initial estimate prepared by Polymetal as at 01.01.2017. Revised estimate was not performed due to lack of material changes.
18 Estimate prepared by Snowden as at 01.07.2011. Price: Au = US$1,150/oz, Ag = US$18.5/oz. Revised estimate was not performed due to lack of material changes.
19 Estimate prepared by RPA Inc. as at 01.01.2015. Price: Au = US$1,200/oz. Revised estimate was not performed due to lack of material changes.
20 Initial estimate prepared by Polymetal as at 01.07.2017. Mineral resources are presented in accordance with Company's ownership equal to 17.66%. A revised estimate was not performed due to lack of material changes.
21 Mineral resources are presented in accordance with Company's ownership equal to 42.65%.
22 Initial estimate for open pit prepared by Snowden, for underground by CSA Global Pty Ltd as at 01.01.2015. Price: Au = US$1,300/oz. Revised estimate was not performed due to lack of material changes.

PGM MINERAL RESOURCES AS AT 1 JANUARY 2018[1]

	Tonnage	Grade					Content				
	Mt	Pd, g/t	Pt, g/t	Au, g/t	Cu, %	PdEq2,g/t	Pd, Moz	Pt, Moz	Au, Moz	Cu, Kt	PdEq, Moz
INDICATED											
Viksha project[3]											
Viksha	27	0.6	0.2	0.1	0.10	1.4	0.5	0.1	0.1	29.6	1.3
Kenti	–	–	–	–	–	–	–	–	–	–	–
Shargi	–	–	–	–	–	–	–	–	–	–	–
Total Indicated	**27**	**0.6**	**0.2**	**0.1**	**0.10**	**1.4**	**0.5**	**0.1**	**0.1**	**29.6**	**1.3**
INFERRED											
Viksha project[3]											
Viksha	52	0.6	0.2	0.1	0.09	1.3	1.0	0.3	0.2	49.5	2.3
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Inferred	**186**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**3.6**	**1.1**	**0.7**	**190.8**	**8.1**
INDICATED + INFERRED											
Viksha project[3]											
Viksha	79	0.6	0.2	0.1	0.10	1.4	1.5	0.4	0.3	79.1	3.6
Kenti	98	0.6	0.2	0.1	0.11	1.3	1.9	0.6	0.4	109.6	4.3
Shargi	36	0.6	0.2	0.1	0.08	1.3	0.7	0.2	0.1	31.7	1.5
Total Indicated + Inferred	**213**	**0.6**	**0.2**	**0.1**	**0.10**	**1.3**	**4.2**	**1.4**	**0.9**	**220.6**	**9.5**

1 Mineral resources are reported in accordance with the JORC Code (2012). Mineral resources are additional to Ore reserves. Discrepancies in calculations are due to rounding.
2 PdEq is calculated using the following formula: PdEq = Pd(g/t) + Pt(g/t) *1.57 + Au(g/t) * 1.61 + Cu(%) * 2.33.
3 Initial estimate prepared by AMC Consultants as at 01.03.2015 using COG (PdEq) = 0.5 g/t/. Revised estimate was not performed due to lack of material changes.

This estimate was prepared by employees of JSC Polymetal Management Company and JSC Polymetal Engineering, subsidiaries of the Company, led by Mr Valery Tsyplakov, who assumes overall responsibility for the Mineral Resources and Ore Reserves Report.

Mr Tsyplakov is the employed full-time as the Managing Director of JSC Polymetal Engineering and has more than 17 years' experience in gold, silver and polymetallic mining. He is a Member of the Institute of Materials, Minerals & Mining (MIMMM), London, and a Competent Person under the JORC Code.

Listed below are other Competent Persons employed by the Company that are responsible for relevant research on which the Mineral resources and Ore reserves estimate is based:

- Geology and Mineral resources – Roman Govorukha, Head of Geologic Modelling and Monitoring Department, MIMMM, with 17 years' relevant experience;
- Mining and Ore reserves – Igor Epshteyn, Head of Mining Process Department, FIMMM, with 36 years' relevant experience;
- Concentration and Metals – Igor Agapov, Deputy Director of Science and Technology, MIMMM, with 20 years' relevant experience.

All the above mentioned Competent Persons have sufficient experience that is relevant to the style of mineralisation and types of deposits under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral resources and Ore reserves' (JORC Code).

All Competent Persons have given their consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

Metals prices used in estimating Mineral resources and Ore reserves are listed below (unless otherwise indicated in the footnotes): Au = US$1,200/oz; Ag = US$16.0/oz; Cu = US$5,500/t; Zn = US$2,000/t.

Gold equivalent data is based on 'Conversion ratios of metals into gold equivalent' provided below. Lead Ore reserves and Mineral resources have not been assessed due to immateriality and are not included in the calculation of the gold equivalent.

REPORTING OF METAL EQUIVALENTS

Gold equivalent conversion ratio

GE = Me/k

Where Me is the evaluated metal content (silver g/t, copper or zinc %)

Where k is the silver to gold equivalent conversion rate that is calculated considering the difference in metals value issuing the following formula:

For silver: k = ((Au price/31.1035 - (Au price /31.1035 - Treatment charge Au)*(Royalty Au)/100 - (Treatment charge Au))*(Recovery Au)/((Ag price/31.1035 - (Ag price/31.1035 - Treatment charge Ag)*(Royalty Ag)/100 - (Treatment charge Ag))*(Recovery Ag)),
for copper or zinc k = 100*((Au price/31.1035) - (Au price/31.1035 - Treatment charge Au)*(Royalty Au)/100 - (Treatment change Au))*(Recovery Au))/(((Me price) - (Me price - Treatment charge Me)*(Royalty Me)/100 - (Treatment charge Me))*Recovery Me)),
where Royalty is the mineral extraction tax at applicable rate, recovery – the life-of-mine expected recovery of the respective metal in the processing technology applied.

Metal equivalent conversion ratios:

		k		
Deposit	Ore processing technology	Ag	Cu	Zn
Dukat	Gravitational flotation	85		
Lunnoye	Cyanidation + Merrill Crowe process	75		
Goltsovoye	Conventional flotation	75		
Arylakh	Cyanidation + Merrill Crowe process	79		
Perevalnoye	Conventional flotation	73		
Primorskoye	Conventional flotation	78		
	Powder ore with high copper content[1]		0.52	
Varvara	Primary ore with high copper content – conventional flotation		0.52	
Tarutin	Primary ore – conventional flotation	94	0.53	
	Oxidised ore – conventional flotation	94	0.53	
Birkachan	Cyanidation carbon-in-pulp	97		
	Heap leaching + carbon-in-colon	103		
Sopka Kvartsevaya	Cyanidation + Merrill Crowe process	86		
	Heap leaching + Merrill Crowe process	141		
Oroch	Cyanidation + Merrill Crowe process	88		
Olcha	Cyanidation + Merrill Crowe process	87		
Dalneye	Cyanidation + Merrill Crowe process	86		
	Heap leaching + Merrill Crowe process	125		
Tsokol Kubaka	Cyanidation carbon-in-pulp	97		
Burgali	Cyanidation + Merrill Crowe process	115		
Irbychan	Cyanidation + Merrill Crowe process	80		
Yolochka	Cyanidation carbon-in-pulp	91		
Nevenrekan	Cyanidation + Merrill Crowe process	98		
Voro	Heap leaching + Merrill Crowe process	393		
	Cyanidation carbon-in-pulp	97		
North Kaluga	Conventional flotation	91	0.68	7.76
Tamunier	Conventional flotation	199		
Saum	Conventional flotation	67	0.60	3.54
Svetloye	Heap leaching + Merrill Crowe process	479		
Avlayakan	Cyanidation + Merrill Crowe process	83		
Ozerny	Cyanidation + Merrill Crowe process	108		
Khakanja	Cyanidation + Merrill Crowe process	105		
Levoberezhnoye	Cyanidation Carbon-in-pulp	88		
Kirankan[2]	Cyanidation + Merrill Crowe process	60		
Maimakan-Kundumi	Cyanidation + Merrill Crowe process	86		
Kapan	Conventional flotation	83	0.60	1.70
Lichkvaz	Conventional flotation	81	0.70	
Nezhda	Gravitational flotation	147		

[1] This type of ore is currently not being processed, it is stockpiled and reflected only in Mineral Resources.
[2] Silver to gold equivalent conversion ratios were not recalculated to deposits that were evaluated in 2011-2012.

GLOSSARY

ABBREVIATIONS AND UNITS OF MEASUREMENT

AGM	Annual General Meeting
CIS	Commonwealth of Independent States
GE	gold equivalent
IMN	Indigenous Minorities of the North
JORC	Australasian Joint Ore Reserves Committee
JSC	joint stock company
LBMA	London Bullion Market Association
LTIP	Long-Term Incentive Programme
NA	not applicable
NM	not meaningful
PE	platinum equivalent
PGM	platinum group metal
POX	pressure oxidation
SE	silver equivalent
g/t	gram per tonne
GJ	gigajoules
km	kilometres
Koz	thousand ounces
Kt	thousand tonnes
Ktpa	thousand tonnes per annum
m	metres
Moz	million ounces
Mt	million tonnes
Mtpa	million tonnes per annum
MWh	megawatt hour
Oz or oz	troy ounce (31.1035 g)
pp	percentage points
t	tonne (1,000 kg)
tpd	tonnes per day

TECHNICAL TERMS

Assay
A chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample

Ag
Silver

Au
Gold

Carbon-in-leach or CIL
A technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching

Carbon-in-pulp or CIP
A technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching

Concentrate
A semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form

Cu
Copper

Cut-off grade
The minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)leaching with cyanide as the leaching agent

Dilution
The share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined

Doré
One of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities

Exploration
Activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc

Flotation
A technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing

Assay
A chemical test performed on a sample of any material to determine the amount of valuable metals contained in the sample

Ag
Silver

Au
Gold

Carbon-in-leach or CIL
A technological operation in which slurry containing gold and silver is leached by cyanide in the presence of activated carbon. Gold is absorbed onto activated carbon in parallel with leaching

Carbon-in-pulp or CIP
A technological operation in which slurry containing gold and silver is leached by cyanide initially without and subsequently in the presence of activated carbon. Gold absorption onto carbon starts only after preliminary leaching

Concentrate
A semi-finished product of mineral processing (flotation or gravity separation) containing significantly more value per unit of weight than ore and subject to further processing for the production of metals or other substances in final useful form

Cu
Copper

Cut-off grade
The minimum grade at which mineralised material can be economically mined and processed (used in the calculation of ore reserves)leaching with cyanide as the leaching agent

Dilution
The share (percentage) of material below the cut-off grade that is extracted together and irretrievably mixed with ore during mining. All other things being equal, higher dilution leads to lower grade in ore mined

Doré
One of the traditional end-products of a gold/silver mine; an alloy containing 90% in sum of gold and silver as well as 10% of impurities

Exploration
Activity ultimately aimed at discovery of ore reserves for exploitation. Consists of sample collection and analysis, including reconnaissance, geophysical and geochemical surveys, trenching, drilling, etc

Flotation
A technological operation in which ore-bearing minerals are separated from gangue minerals in the slurry based on variance in the interaction of different minerals with water. Particles of valuable concentrate are carried upwards with froth and collected for further processing

Grade
The relative amount of metal in ore, expressed as grams per tonne for precious metals and as a percentage for most other metals

Head grade
The grade of ore coming into a processing plant

Heap leach
A technological operation in which crushed material is laid on a sloping, impervious pad where it is leached by cyanide solution to dissolve gold and/or silver. Metals are subsequently recovered from pregnant leach solution by CIC or the Merrill-Crowe process

Indicated resource
That part of a resource for which tonnage, grade and content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed

Inferred resource
That part of a resource for which tonnage, grade and content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability

In-fill drilling
A conventional method of detailed exploration on an already defined resource or reserve, consisting of drilling on a denser grid to allow more precise estimation of ore bodyparameters and location

Leaching
The process of dissolving mineral values from solid into liquid phase of slurry

Measured resource
That part of a resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity

Merrill-Crowe process
A technological operation for extraction of gold and/or silver after cyanide leaching. In the first step slurry containing gold and/or silver is separated into liquid and solid phases by washing the solids off in countercurrent decantation thickeners. In the second step pregnant leach solution (liquid phase of slurry) is filtered to remove impurities and deaerated. Finally, gold and silver are deposited onto the solid bed of claylike material where they replace zinc particles which pass into a solution. Merrill-Crowe is preferentially used for silver-rich ores

Mill
A mineral processing plant

Mineralisation
A rock containing valuable components, not necessarily in the quantities sufficient for economically justifiable extraction. Consists of ore minerals and gangue

Open-pittable
Amenable for economically feasible mining by open-pit methods

Open-pit mine
A mine that is entirely on the surface. Also referred to as open-cut or open-cast mine

Ore
The part of mineralisation that can be mined and processed profitably

Ore body
A spatially compact and geometrically connected location of ore

Ore mined
Ore extracted from the ground for further processing

Ore processed
Ore subjected to treatment in a mineral processing plant

Ore stacked
The ore stacked for heap leach operations

Oxidised ore
Ore in which both ore minerals and gangue are fully or partially oxidised thus impacting its physical and chemical properties and influencing the choice of a processing technology

POX or pressure oxidation
A technological operation in which slurry is subjected to high pressure and high temperature in an autoclave with the goal to destroy sulphide particles enveloping gold particles and make slurry amenable to cyanide leaching

Precipitate
The semi-finished product of mineral processing by Merrill-Crowe process, normally containing very high concentrations of silver and/or gold

Primary ore
Unoxidised ore

Probable reserves
The economically mineable part of an indicated (and in some cases measured) resource, which has a lower level of confidence than proved reserves but is of sufficient quality to serve as the basis for a decision on the development of the deposit

Production
The amount of pure precious metals, measured in thousands of ounces for gold, millions of ounces for silver and tonnes for copper, produced following processing

Proved reserves
The economically mineable part of a measured resource, which represents the highest confidence category of reserve estimate. The style of mineralisation or other factors could mean that proved reserves are not achievable in some deposits

Pt
Platinum

Reclamation
The restoration of a site after mining or exploration activity is completed

Recovery or recovery rate
The percentage of valuable metal in the ore that is recovered by metallurgical treatment in the final or semi-finished product

Refractory
A characteristic of gold-bearing ore denoting impossibility of recovering gold from it by conventional cyanide leaching

Reserves
The economically mineable part of a measured and/or indicated mineral resource. It takes into account mining dilution and losses. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Reserves are subdivided in order of increasing confidence into probable reserves and proved reserves

Resources
A concentration or occurrence of material of intrinsic economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of resources are known, estimated or interpreted from specific geological evidence and knowledge. Resources are sub-divided in order of increasing geological confidence, into inferred, indicated and measured categories

SAG mill
A semi-autogenous grinding mill, generally used as a primary or first stage grinding solution

Step-out exploration drilling
Holes drilled to intersect a mineralisation horizon or structure along strike or down dip

Stope
A large underground excavation entirely within an ore body, a unit of ore extraction

Stripping
The mining of waste in an open-pit mine

Tailings
Part of the original feed of a mineral processing plant that is considered devoid of value after processing

Underground development
Excavation which is carried out to access ore and prepare it for extraction (mining)

Waste
Barren rock that must be mined and removed to access ore in a mine

SHAREHOLDER INFORMATION

As at 9 March 2018, the Company's issued share capital consisted of 430,115,480 ordinary shares of no par value. The Company does not hold any ordinary shares in treasury. The ordinary shares reflect 100% of the total issued share capital of the Company.

Substantial shareholdings as at 9 March 2018

In accordance with the FCA's Disclosure and Transparency Rules (DTR 5), as at 9 March 2018 the Company received notification of the following material interests in voting rights over the Company's issued ordinary share capital (including qualifying financial instruments):

		Number of shares	Percentage of issued share capital (%)
Powerboom Investments Limited	Mr Alexander Nesis	116,672,537	27.13%
Fodina B.V.	Mr Petr Kellner	54,590,404	12.69%
Public Joint-Stock Company 'Bank Otkritie Financial Corporation'	–	32,525,673	7.56%
Vitalbond Limited	Mr Alexander Mamut	28,115,959	6.54%
Lynwood Capital Management Fund Limited	Mr Nikolay Mamut, Mr Pyotr Mamut, Miss Esfir Mamut	17,600,082	4.09%
MBC Development Limited	Mr Alexander Mosionzhik	17,000,000	3.95%

Registrar

Computershare Investor Services (Jersey) Limited
Queensway House
Hilgrove Street
St Helier
Jersey JE1 1ES
Channel islands

Auditors

Deloitte LLP
2 New Street Square
London EC4A 3BX
United Kingdom

Brokers

Morgan Stanley & Co. International plc
25 Cabot Square
London E14 4QA
United Kingdom

RBC Europe Limited
Riverbank House
2 Swan Lane
London EC4R 3BF
United Kingdom

Panmure Gordon & Co
One New Change
London EC4M 9AF
United Kingdom

Legal counsels

Jersey legal advisors to the Company

Carey Olsen
47 Esplanade
St Helier
Jersey JE1 0BD
Channel islands

English and US legal advisors to the Company

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

Cypriot legal advisors to the Company

Andreas M. Sofocleous & Co LLC
Proteas House
155 Makariou III Ave
Limassol 3026
Cyprus

Company offices

Registered office of the Company
44 Esplanade
St Helier
Jersey JE4 9WG
Channel Islands
+44 1534 504 000
Registered No. 106196

Limassol office (Cyprus)
Zinas Kanther and Origenous
Corner Street
Zinas Kanther Business
Center 3035
Limassol Cyprus
+357 25 558080

London office (UK)
1 Berkeley Street
London W1J 8DJ
United Kingdom
+44 20 7016 9503

JSC Polymetal, the Russian holding company of the Group
Office 1063
2 Prospect Narodnogo Opolcheniya
St. Petersburg 198216
Russian Federation
+7 812 334 3666
+7 812 677 4325

PolyArm LLC
2/1 Melik Adamyan street
Yerevan, 0010
Armenia
+374 285 59 051

Polymetal Eurasia LLP
33 Konaeva Street
Astana 010000
Republic of Kazakhstan
+7 7172 790548
+7 7057 463026

Company secretary

Tania Tchedaeva

Media contacts

FTI Consulting
Leonid Fink
Viktor Pomichal
+44 20 3727 1000

Investor relations

Evgenia Onuschenko
Maryana Nesis
Michael Vasiliev
+44 20 7016 9506 (UK)
+7 812 334 3666 (Russia)
ir@polymetalinternational.com